Macias Consulting Group, Inc.
Management Consultants

Omnitrans

Evaluation of Administrative Operations

Final Report

January 23, 2006

Table of Contents

MCG Highlights

Why MCG Conducted This Review

Omnitrans is the public transit agency of about 650 employees serving the San Bernardino Valley. Omnitrans carries over 15 million passengers each year throughout its 480-square mile service area. During the past several years, issues have been raised about the efficiency and effectiveness of Omnitrans administrative operations related to finance, procurement, human resources, and information management.

Omnitrans Board of Directors requested a performance evaluation of Omnitrans. Our specific objectives were to: (1) evaluate specific issues raised by elected officials about the Omnitrans' use of financial management software, the termination of a Contracts Manager, and the purchase of bus tires; and (2) review Omnitrans' fiscal and operating position, procurement processes, information management processes, and implementation of prior recommendations.

Our Recommendations

We developed 37 recommendations that address financial management, human resources management, and information management pertaining to increased internal controls, staff development, and development and enhancement of policies and procedures. Implementing these recommendations would heighten the performance of Omnitrans. Omnitrans generally agreed with 26 of the recommendations and did not agree with six of them. The Agency is considering an additional three and did not respond to the remaining two because the recommendations were directed to the Omnitrans Board of Directors and Audit Committee.

Omnitrans Needs Better Cohesiveness of Operations

What MCG Found

The results of special issues that we were asked to examine about the implementation of a budgeting application, the purchase of the bus tires, and the termination of a prior Contracts Manager show these issues reflect current concerns about agency administrative operations. Specifically, we noted that:

- The Agency's new budget software application was initiated without a comprehensive IT plan for the Agency or full knowledge of the business requirements needed to make the application fit well with the Agency's existing financial system. The software that cost $202,000 is not used by the agency.

- The Agency's tire purchase for its buses cost the Agency $212,000 because Omnitrans staff failed to give the vendor 30 days notice prior to contract expiration of its intent to lease or buy-out the remaining tires in inventory.

- The termination of a prior contracts manager was administered in accordance with established Omnitrans Human Resources policies, laws, and regulations.

In our review of financial management, purchasing, information technology and other human resources practices, we found long-term weaknesses in some of them. While the Agency has taken significant steps to strengthen operations, particularly in the human resources and purchasing areas, and has learned from past mistakes, the Finance Department remains hampered by:

- Vacancies in leadership positions.
- A financial system that does not effectively perform the functions Omnitrans needs, especially in grant management and financial reporting.
- Finance Staff turnover that continued through the time of our review.

The Procurement Department remains hampered by:

- A purchasing system that does not encumber funds, which allows for the inability to track, agency-wide, expenditures against available revenue.
- The absence of a significant number of internal controls that increases the risk of potential fraud and misuse.

The Information Technology Services Department remains hampered by:
- The lack of centralization in having greater decision-making authority and central management of all IT-related projects that would help ensure all applications meet the critical needs of the Agency and integrate well with other applications.
- The implementation of the Agency's new financial system has cost Omnitrans $2.1 million to date. Work continues to correct system glitches and to meet other business needs of the Finance Department.

Other issues pertaining to labor relations and potential problems raised by staff are addressed within this report.

Section 1: Background

Omnitrans

Omnitrans is the public transit agency of approximately 650 employees serving the San Bernardino Valley. Founded in 1976 through a joint powers agreement, Omnitrans carries over 15 million passengers each year throughout its 480-square mile service area. Omnitrans is overseen by a 20-member Board of Directors representing the 15 cities in the County of San Bernardino and serving almost 1.3 million residents.

To manage a fleet of approximately 175 buses and 100 vans, Omnitrans is divided into seven departments, each managed by a Director or Manager. These departments include: Finance, Operations, Maintenance, Procurement, Human Resources, Planning, and Marketing. In FY 04-05, the Department Directors and Managers reported directly to Omnitrans' CEO/General Manager.

During the past several years, issues have been raised about the efficiency and effectiveness of operations related to finance, procurement, human resources, and information management. These concerns have been raised by external auditors, former employees of Omnitrans, and elected officials.

The Omnitrans Board of Directors, along with the San Bernardino County Auditor/Controller-Recorder's Office (ACR), requested services for a performance audit of selected processes and conditions in the finance, procurement, human resources and information management functions. Our specific objectives were to: (1) evaluate specific issues raised by elected officials about Omnitrans' use of financial management software, the termination of a Contracts Manager, the purchase of bus tires; and (2) review Omnitrans' fiscal and operating position, procurement processes, information management processes, and implementation of prior recommendations.

What is Internal Control?

In performing our work, we applied the standards and conceptual framework developed by two authoritative federal government agencies: the U.S. Government Accountability Office (GAO) and the Office of Management and Budget (OMB). To understand better the results of our work, excerpts from these standards and conceptual framework briefly follow.

According to GAO guidance (GAO AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999), internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:
- Effectiveness and efficiency of operations,

- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal control helps government program managers achieve desired results through effective stewardship of public resources.

Additionally, per GAO, internal control should include a continuous built-in component of operations, effected by staff to provide reasonable assurance, not absolute assurance.

The GAO describes the standards for internal control as follows:
- <u>Control Environment:</u> Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.
- <u>Risk Assessment:</u> Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.
- <u>Control Activities:</u> Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives.
- <u>Information and Communications:</u> Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.
- <u>Monitoring:</u> Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

Control activities are often associated with internal control, and many of our recommendations involve such control activities. The GAO provides the following as examples of control activities:
- Top level reviews of actual performance,
- Reviews by management at the functional or activity level,
- Management of human capital,
- Controls over information processing,
- Physical control over vulnerable assets,
- Establishment and review of performance measures and indicators,
- Segregation of duties,
- Proper execution of transactions and events,
- Accurate and timely recording of transactions and events,
- Access restrictions to and accountability for resources and records, and
- Appropriate documentation of transactions and internal control.

In Circular A-123, June 21 1995, the OMB provides specific management control standards:

- Delegation of Authority and Organization: Managers should ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.
- Separation of Duties and Supervision: Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
- Access to and Accountability for Resources: Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.
- Recording and Documentation: Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.
- Resolution of Audit Findings and Other Deficiencies: Managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to management's attention.

Objectives

Our specific objectives were to (1) evaluate specific issues raised by elected officials about Omnitrans' use of financial management software, the termination of a Contracts Manager, the purchase of bus tires; and (2) review Omnitrans' fiscal and operating position, procurement processes, information management processes, and implementation of prior recommendations.

Scope

We limited our review to the Departments of Human Resources, Procurement, Finance, and Information Technology. Also, to provide a complete review of issues raised during the course of our work, we interviewed staff from the Operations and Maintenance Departments.

Methodology

To evaluate specific issues raised about financial software applications, tire purchases, and termination of a Contracts Manger, we reviewed all financial and

contract correspondence, as well as other documentation made available to us by Omnitrans staff. Also, we interviewed staff employed at the time the issues occurred to gain an understanding of the conditions that existed.

To evaluate the finance, procurement, information management, and human resources processes, we gathered and analyzed policies and procedures, agency reports, and available databases. Also, we examined selected purchase orders for accuracy and completeness; reviewed all applicable IT project files for adherence to industry standards for information management; and evaluated employee hiring, training, evaluation and termination practices against hiring policies, laws, and regulations. Finally, we interviewed department directors and managers, supervisors and employees at the staff level in the aforementioned departments listed in the scope.

Our work was performed between September 7, 2005, and December 7, 2005, according to generally accepted governmental auditing standards as promulgated by the Comptroller General of the United States.

Omnitrans management was provided the opportunity to review our draft report and their comments were incorporated as directly reported by the Agency. Generally, Omnitrans agrees with nearly all our report recommendations.

Section 2: Special Issues Show Costly Errors

Omnitrans Spent Over $202,000 Installing a Budgeting Software Application

In early 2005, concerns were raised by elected officials about Omnitrans' purchase and use of a budgeting software application. We examined these issues to determine whether Omnitrans (1) conducted an IT needs assessment prior to purchase of new budgeting software; (2) selected the budgeting application based on the needs assessment; (3) took steps to ensure that the budgeting application met the agency's needs; and (4) has an effective process for software application change management.

History of the Budgeting Application Purchase

In July 2001, a former Omnitrans Finance Director received authorization by the Omnitrans Board of Directors (Board) to purchase a software application designed to administer budgeting activities. The Board, in September 2001, approved a $128,515 contract that included the budgeting software, five concurrent user licenses, application implementation, setup, training, and five years maintenance. A ten percent contingency amount was also approved that raised the total approved cost to $141,367. Based on vendor proposal documents, the software application offered Omnitrans advanced budget preparation and budget reporting capability.

The budget application implementation began in September 2001 and lasted through August 2002. The Finance Director was delegated as the project manager for the implementation. Preliminary testing with staff had been performed and vendor progress reports showed plans to perform custom programming to create additional fields for budget and accounting codes. Omnitrans staff reported that the data presented on budget reports did not match the data that was entered into the system and that there were concerns about account coding differences between the Agency's core financial management system and the budget application. The vendor performed additional work to correct the problem. After the work was performed, the Omnitrans General Manager and the Administrative Officer asked the Board in August 2002 for authorization of an additional $61,000 to cover outstanding invoices, and to purchase additional services necessary to utilize basic functions, including reporting. According to the project file, the new total contract amount was $202,367.

Key Results:

6

The budgeting application is not currently in use at Omnitrans

There were mixed reports within Omnitrans about what happened to the budgeting application after the departure of the Finance Director in July 2002. One explanation claimed that the implementation did not pass the testing stage because of the coding needed and that other Finance Directors were not interested in the application. However, other staff explained that the new Finance Directors were not aware of the new budget application. Another account by the Omnitrans General Manager explained that additional software licenses were needed, making the software cost prohibitive. Each license would have cost $9,000 per user for nine additional staff. Records also show that Omnitrans would have had to pay to have the application reinstalled to accommodate the licenses, but they did receive a trial period of ten licenses prior to the additional Board authorization of $61,000. While Executive Management reported Omnitrans did use Comshare for preparation of the FY 01-02 budget, the agency continues to use Excel for its $64 million dollar operating budget. Generally, agencies of this size require the use of budget software with many application controls and audit trail features. The Omnitrans General Manager explained that the budgeting application could be implemented depending upon future functionality of the Agency's new financial system.

Omnitrans did not have an effective process to ensure adequate implementation of the software application

An effective project management and implementation process ensures that all business needs and requirements of a new system are addressed in a new IT system. Components of effective project management should include a comprehensive needs assessment, software implementation and application change processes, in effect, a central oversight of the system. Our review showed that Omnitrans did not fully follow these principles with the new budgeting software application. Specifically, we determined that:

- Omnitrans did not implement a comprehensive needs assessment. The results of this needs assessment would have informed the Agency prior to implementation that additional custom programming would be needed to integrate data with the Agency's financial management information system. The Agency would also have known the actual number of licenses necessary for the implementation of the application throughout the Agency. Omnitrans management explained that a rationale for the system was documented and budgeting needs were identified. However, a comprehensive needs assessment would have more fully identified all system integration issues, financial reporting needs, and job process changes needed for the new system.

- At the time of the business application software implementation, Omnitrans did not have change management policies and procedures in place. Departments were highly autonomous and if their budgets allowed, they had the option to implement IT-related projects as needed, seeking Information Technology Services (ITS) guidance at their own discretion. Our review found that the Agency relied on the vendor to provide project planning documentation and progress reports, but there was no evidence to support that Omnitrans took steps to ensure that the vendor kept to its commitment or performed the necessary oversight of vendor activities, but relied on documentation prepared by the vendor. Generally, expensive IT implementations involve independent certified project managers. Also, the project files we reviewed on the budget application did not have the recommended change orders associated with the IT implementation to document the changes needed and performed.

- Omnitrans' Information Technology Services did not have the authority to manage all IT-related projects taking place at the Agency.

Omnitrans did not protect itself from incurring additional costs

Generally, government contracts include a standard requirement to terminate a contract for any reason. This helps a public agency to control costs should a project significantly exceed original budget estimates. Also, should a project lead to unanticipated problems, the "right to cancel" clause can help to protect a public agency from adverse outcomes. We determined that the budgeting application contract did not have a "right to cancel" clause. As a result, the Omnitrans General Manager signed the budgeting application agreement that contained a non-cancelable maintenance fee requirement. Omnitrans continued to pay the maintenance component of the agreement even though the system had not been in use. The last "maintenance" payment was issued in August 2004. Currently, two purchase orders remain open on the budgeting application project. One purchase order has a balance remaining of $3,800 and the other has a balance remaining of about $18,000. We were unable to receive information from the budgeting application vendor if Omnitrans will continue to receive invoices for "maintenance" fees.

A clear audit trail of expenditures was not maintained

Audit trails provide the accountability and documentation necessary to ensure that mandatory control activities that were intended to take place were actually implemented. Audit trails also help ensure that external agencies can independently account for all expenditures of funds. We determined that for the

budgeting application project, discrepancies occurred in maintaining appropriate documentation. For example, we determined:

- While the additional funds of $61,000 were approved by the Omnitrans Board of Directors (Board) in August 2002, we were not able to independently link whether these funds were properly expended as originally presented to the Board. We identified that a portion of the additional funds appropriated were used for the budgeting application training provided in January 2003.

- Inconsistencies occurred in the preparation of purchases orders. On August 28, 2002 a purchase order (P09404) was prepared for $61,000 but after the purchase order was issued, the amount of this purchase order was changed six months later in February 2003 to reflect an amount of $55,841. Subsequently, a second purchase order (P10768) was then created for $5,158, thereby equaling the original approval of $61,000. Omnitrans Director of Procurement, who was not employed at the agency at the time of the transaction, explained that an e-mail was received from the Finance Department requesting a change to the cost allocation that was to be split between two account codes. The purchase order was reduced on the first account code and an additional purchase order (P10768) was created for the second account code. During this period of time, the Director of Procurement explained that purchasing staff did not know how to use the Agency's new financial system to add a second line to a purchase order after it had been issued. The Director of Procurement reported that Omnitrans' current procedure should correct the account code and cost allocation, and add an additional line to the purchase order to include the second cost allocation numbers. These current procedures were not included in Omnitrans' former procurement policies and procedures.

Omnitrans learned from the budgeting application implementation

Learning from mistakes or resolving unanticipated issues or challenges allows a manager to gain added experience and knowledge that could be applied in future activities. We determined that Omnitrans learned from the unsuccessful budgeting application project by establishing a Technical Review Committee (TRC) to help provide oversight on project feasibility and to identify possible implementation issues. TRC authorization is required for Information Technology projects that require in excess of 40 hours of ITS staff time for their implementation, operation, or ongoing support. Also, any technology projects that are not included as replacement components within the Short Range Transit Plan, and have a projected budget of more than $5,000 regardless of ITS time

requirements, will have to be approved by the Committee. Once the project implementation begins, the TRC requires regular status reports to help insure adherence to original justification and cost estimates. Any deviation in the project objective, timescale, or cost will have to be justified by the project sponsor. Once the project is completed, a post implementation review will be conducted by the project sponsor. The TRC is made up of all Department Directors, the ITS Manager and the Omnitrans General Manager. However, unlike other IT committees for public agencies, the Omnitrans TRC committee does not include an impartial third-party representative.

Recommendation

1. Implement a budgeting software application, other than Excel, that allows for grant management and tracking, and provides reports on budget vs. actual expenditures.

Omnitrans Management Response

Agree. Plans are underway for implementing the "Grants Module." The Finance Director that was instrumental in purchasing Comshare separated from the agency in July 2002. As previously stated, the software was utilized for preparing the agency's FY01-02 budget. The next Director that started in October 2002 did attempt to utilize the software for the FY02-03 budget.

Invoices for all Comshare payments were provided to Macias along with a spreadsheet, which documented the payments to Comshare. A review of these invoices revealed that the funds were "properly expended as originally intended" by the OMNITRANS Board of Directors. The August 7, 2002 change order approved by the Board addressed the outstanding/pass due invoices for the software implementation cost. Five (5) of these invoices were included in the change order dated August 7, 2002 for $61,000 which had been misplaced by the former Director of Finance.

These invoices were for implementation, staff training and solution roll outs as follows:

Invoice Date	Invoice Number	Service Description	Amount
7-31-2002	RPSM-6570017	Post Implementation Support	$ 7,185.62
2-28-2002	RPSM-6520006	Post Implementation Support	$10,880.00
3-31-2002	RPSM-6530011	Roll Out/Staff Training	$ 7,499.16
4/30/2002	RPSM-6540008	Post Implementation Support/Roll Out	$16,164.10
6/30/2002	RPSM-6560011	Post Implementation Support	$675.00
Total of Invoices that were held and not paid till 8/29/2002			**$42,403.88**
All invoices paid on check #105287 dated 8/29/2002			

The remaining 6 invoices which make up the balance of the change order amount were as follows:

Invoice Date	Invoice Number	Service Description	Amount
8-23-2002	RPSM-6580052	Maintenance 10/2002 to 12/2002	$ 1,953.76
8-31-2002	RPSM-6580022	Post Implementation Support	$ 1,863.40

11-30-2002	RPSM-6610003	Verified Development	$ 1,620.14
11-30-2002	RPSM-6610017	Training Classes for Accounting Manager and Director of Finance	$ 8,000.00
5-8-2003	RPSM-6630030	Post Implementation Support	$ 4,399.96
8-18-2003	RPSM-6700022	Post Implementation Support	$ 759.22
Total of Invoices after board date of 8/7/2002			**$18,596.48**

It is noted that only $5,159.18 [$4,399.96 and $759.22] of the $61,000 was subsequently paid several months after the August Board approval date.

12

Omnitrans Was Able to Reduce the Tire Purchase Contract Error to $124,000

State elected officials raised concerns about Omnitrans' purchase of reportedly substandard tires used on transit buses. We examined these issues to determine the (1) adherence of procurement procedures for tires, (2) extent that nontransit tire procurements were made, and (3) the circumstances for these procurements.

History of Tire Purchase

Many transit agencies enter into long term contracts with tire companies to furnish tires for buses on a lease basis. In July 1998, Omnitrans entered into a lease agreement, subsequent to a formal bidding procurement, with the Bridgestone/Firestone Company to provide tires to the Agency through June 2003. The specific model number of the tire leased was the Bridgestone/Firestone R192, which were to last about 40,000 miles, or about five to six months, before the bus tires needed replacement.

In the summer of 2001, however, the Bridgestone/Firestone Company had run low on its supplies of the US-made R192 tire and thus, did not have sufficient quantities to last through the contract. The Company could have received the same tire manufactured outside of the United States but since Omnitrans was using federal transit grants for the purchase of the tires, the agency had to comply with federal rules requiring goods valued at over $100,000 to be produced within our country. Omnitrans requested an exemption from federal procurement rules, but was denied.

The Omnitrans tire contract with the Bridgestone/Firestone Company allowed the use of an "equivalent" tire. As a result, Bridgestone/Firestone began shipping to Omnitrans a Goodyear G159 tire, which was a general commercial truck tire. There was no financial advantage to the Bridgestone/Firestone Company for shipping Omnitrans the Goodyear tire because the Company was buying the Goodyear tires commercially for more than what Omnitrans had agreed to pay through their lease agreement.

Soon after accepting their delivery, Omnitrans discovered the general commercial tire could be used only for about six to seven weeks, or about 6,000 to 7,000 miles before the Omnitrans Maintenance Department had to replace the tires. As controversy grew about the use of the general commercial tire, Omnitrans Management referred to the tire as not "Transit-Rated", a term not in industry usage. A more correct term would have been "Transit-Specific". However, the news media and others picked up on the incorrect terminology.

Key Results

Omnitrans' Bridgestone/Firestone Company tire contract was absent specific tire requirements

The Omnitrans tire contract with the Bridgestone/Firestone Company did not stipulate necessary requirements that any use of an "equivalent" tire had to be "transit-specific" or provide definite mileage requirements. As a result, Omnitrans was provided a general commercial tire for its buses that required more frequent replacement.

Omnitrans was not able to obtain a better tire for its buses

Omnitrans leased a non-transit specific tire for one and one-half years. There was no evidence to show that Omnitrans attempted to work with the Bridgestone/Firestone Company to obtain a more durable tire. The Omnitrans General Manager explained that Agency discussions with their general counsel at the time advised the continued use of the tire until the contract expired. The Omnitrans General Manager further explained that other activities were taking place to resolve the tire issue. Based on available documentation, these activities involved requesting a waiver from the federal government to purchase the original tire from outside of the United States and negotiating a price to close out the original tire contract.

Omnitrans staff erred in the management of the tire contract

The Omnitrans Director of Maintenance, who was delegated by the General Manager to oversee the Bridgestone/Firestone contract, failed to submit the required 30-day notice to the Bridgestone/Firestone Company about the Agency's intention to either continue to pay for the existing tire inventory on a per-mile basis, or to buy-out the remaining tire inventory. Submitting the notice would have allowed Omnitrans to continue to lease the alternate tire on a per-mile basis until the Agency's inventory was depleted. Internal notes and correspondence with Bridgestone/Firestone show that the cost of this option would have been approximately $92,000. However, given the lack of notice by the Agency, the Bridgestone/Firestone Company followed contract requirements and ultimately invoiced Omnitrans $291,760 – the cost to buy-out the tires. This amount was negotiated down by Omnitrans management and was eventually settled at $216,000. Taking into account that the $92,000 that would have been paid anyway if Omnitrans had opted to use the existing tire inventory on a per-mile basis, the cost to close the tire contract with the Bridgestone/Firestone Company required an additional $124,000 from Omnitrans.

Other tire procurement issues continued despite lessons learned

We determined that a new tire contract with the Goodyear Company contains minimum mileage coverage of 25,000 for any alternate tire used by Omnitrans. This should prevent the problems that occurred with the Bridgestone/Firestone contract. However, after entering into a new contract with another vendor, the Goodyear Tire Company, Omnitrans ordered new buses that did not fit the newly-purchased tires. Omnintrans explained a decision to buy a larger tire was prompted by ordering a bus that had a heavier rear axle. Omnitrans had to subsequently amend the contract to include an additional $165,796 for tires that were sized to newly-ordered buses. Although transit agencies include plans for bus replacement up to five years in advance, this information was not shared with the Contracts Department and led to additional time and resources to address this problem. As a result, Omnitrans did not promote effective communication and coordination between the Departments during the contract bidding and preparation of the latest tire procurement.

No safety concerns were caused by the use of the general commercial tire

Issues were raised by the Omnitrans staff that the use of the general commercial tire constituted a safety problem. We determined that no safety issue was created by the use of the tire. The following table shows the tire specifications for the original (R192) tire, the equivalent (G159) tire, and the current (G152) tire in use.

Summary Tire Specifications:

Tire	Ply	Load Rating	Tread	Undertread	Max Load: Single/Dual
Original Tire (R192)	16	H	24/32"	6/32	6615/6175
Alternate Tire (G159)	16	H	18/32"	8/32	6940/6395
Current Tire (G152)	16	H	27/32	6.4/32	6940/6395

No Evidence of Whistleblowing Uncovered with the Termination of a Former Contracts Manager

At the request of state elected officials, we examined the appropriateness of the termination of a former contracts manager for adherence to employment rules.

<u>History of the Issue</u>

Omnitrans hired a Contracts Manager on February 2, 2004. Omnitrans' Probationary Period policy states that the length of the probationary period is six (6) months for new employees. Probationary period progress reports are made by the Appointing Authority or designee on forms provided by the Human Resources Department and may be made in increments of any sequence of thirty (30) days performance. A mandatory probationary period progress report is required after the completion of five months (at which point the recommendation concerning regular status must be made and approved by the Appointing Authority). Use of a probationary period began with the Pendleton Act of 1883 and remains a part of most public personnel practices today.

During the next several months, the Contracts Manager raised an issue publicly about an ITS Manager's request to add $650,000 to an old vendor purchase order to help facilitate a financial system upgrade planned for Omnitrans. The Contracts Manager raised another issue about the discrepancies in financial estimates provided for certain types of costs required for the IT system upgrade. The Contract Manager's employment was terminated about four months after hiring – May 27, 2004 – and issues were reported publicly that the termination may have been over "whistleblowing".

Key Results:

**Omnitrans followed the Agency's probationary policy
in the termination of the Contracts Manager**

Omnitrans followed agency policy regarding probationary discharge in this case. The former Contracts Manager was terminated prior to the mandatory five-month evaluation and during his probationary period. Within this timeframe, Omnitrans' policy does not require cause to be stated for this type of termination. The Omnitrans Human Resources Director explained that the probationary period provided the opportunity for management and the employee to determine whether a right match exists. The Director of Human Resources further explained that during the Contract Manager's employment, the Agency had plans to reorganize and establish a Director of Procurement position for which the former Contracts Manager was asked to apply. We contacted the former Contracts Manager who explained that the position did not exist at the time of his

termination and the Omnitrans Board of Directors had not approved any potential reorganization enabling him to even apply for a position. He further explained that he turned down the Human Resources Director's request that he could apply for the future job because the Omnitrans General Manager previously informed him that he was going to establish the new position and "hire professionals".

Termination of the Contracts Manager was consistent with other involuntary separations

We examined other involuntary separations to determine whether the former Contract Manager's termination was implemented any differently from others. We found that Omnitrans' termination practices were consistent. Of the 39 involuntary separations that occurred during employees' probationary periods, nearly all, or 37 of them, were discharged at or prior to their five-month mark. This would exclude documenting a rationale for the dismissal. Although human resources management practices suggest that a reason for termination does not have to be provided to an affected employee, effective human resources management would dictate preparation of documentation showing a legal reason behind the termination.

The former Contracts Manager acted appropriately in refusing to change an old purchase order

A former Contracts Manager alleged that he was requested by the ITS Manager to add $650,000 to an old purchase order that was created in 1999. The former Contracts Manager acted appropriately in refusing that request by following generally accepted internal control activities. Such activities would prohibit opening a purchase order that had already been closed. To accept the request would have created a performance issue for the former Contracts Manager. Proper internal controls were followed and a new purchase order was created.

The former Contracts Manager acted appropriately in questioning budget estimates provided by an IT vendor

During the review by the former Contracts Manager of the vendor's $650,000 total cost estimate, the Contracts Manager requested that the vendor submit cost detail on several line items, such as overhead cost and hourly wage rates. Upon receipt of the additional information, the line items were subsequently revised by the vendor, which led to additional questions by the former Contracts Manager and other requests for information. We determined that the Contracts Manager acted properly by questioning the financial information submitted by the IT vendor because our review noted the same cost differences. The Contract

Manager had e-mailed the Omnitrans General Manager on multiple occasions pointing out changes in the cost estimates for the indirect and direct rates, and requesting directions from the General Manager. No evidence was available to show that the General Manager responded directly to the Contract Manager. However, the Omnitrans General Manager explained that the Vendor contacted the General Manager for clarification as a result of previous requests from the former Contracts Manager regarding pricing clarification.

IT vendor called him directly for clarification regarding previous pricing requests from the former Contracts Manager. Based on this conversation, the General Manager reported that the IT vendor submitted a third revision showing the cost detail of the price estimate of $650,000. Based on documentation, the vendor had indicated they were submitting revised pricing sheets per the instructions of the General Manager. Effective procurement practices should require the Contracts Manager's continued involvement in the discussions.

Section 3: Omnitrans Financial Management Lacks Effective Direction

<u>Summary of Results</u>

Fiscal evaluations of public agencies help management and elected officials determine whether agencies are heading for trouble before a financial crisis occurs. For our financial analysis of Omnitrans, we used three common approaches – ratio, horizontal, and vertical analyses. Ratio analysis provides an in-depth understanding of financial statements. A ratio expresses the relationship between two numbers, such as current assets to current liabilities. The subsequent results show indications of Omnitrans' ability to address financial management issues, such as the ability to pay short-term liabilities. Ratios are generally grouped into four categories: liquidity, profitability, activity, and capital structure. Liquidity ratios address how well Omnitrans is positioned to meet its short-term obligations. Profitability ratios address how well Omnitrans has profited from operations. Activity ratios address how efficiently Omnitrans uses its assets to produce revenue. Capital structure ratios address how Omnitrans assets are financed and the ability of Omnitrans to take on new debt. Horizontal analysis, or a trend analysis, looks at percentage change in a line item contained on a financial statement from one year to the next. Vertical analysis examines the percentage of one line as a component of another line item.

The results of our analysis show several issues of concern. First, operating revenue received from bus fares remained at about the same levels throughout the three-year period of our review. Second, Omnitrans expenditures have outpaced revenue received. Third, prior recommendations made to strengthen financial management operations show a history of dealing with the same issues of financial system problems, personnel issues, staff training, and the lack of adherence to internal controls. Finally, at the completion of our review, Omnitrans did not have any Managers or Directors with the required accounting and finance expertise to manage the overall financial operations of the Agency. Omnitrans management explained that the GM/CEO has experience in the finance area and is also designated as the Treasurer of the Agency.

Omnitrans Operating Revenues have Remained Relatively Flat

Actual operating revenues have remained about the same from FY01-02 to FY 03-04. As shown in Table 1.0, operating revenues were about $12.3 million in FY 02-03 and $12.8 million in FY 03-04, an increase of 4.9 percent. This means that revenue received from passengers using Omnitrans transit services have not significantly increased, which is a reflection of limited changes in ridership. However, Omnitrans' short-range transit plan reported a high correlation between

the high numbers of low income persons living in the Omnitrans service area and increased ridership.

Thus, to identify the circumstances for the lack of growth in operating revenue, we examined several areas. First, we evaluated internal controls in safeguarding and counting fare box revenue from passenger ridership. We noted that most of the controls over fare box collection and counting were adequate, except for one. Only one person, rather than two, collects the revenue from the fare box before it is provided to the Omnitrans Finance staff for counting. Also, bus operators and supervisors reported that because fare box mechanisms routinely malfunction, passengers are given free rides on a daily basis.

We further examined reported information from bus operators that more passengers were riding on buses. We reviewed on-time reliability for Omnitrans buses because if buses were arriving at stops later, then it would suggest that more passengers were loaded and unloaded. Transit agencies figure in traffic stops and congestion when scheduling bus routes. We could not draw any conclusions on passenger ridership for the time period of our review because on-time reporting is manually recorded by 17 supervisors and not all routes are tracked consistently.

The Omnitrans General Manager acknowledged that the lack of operating revenue growth is a concern and that steps were taken to identify the causes of the problem, such as reconciliations between fare box revenues and reported passenger loads, but the results were inconclusive. In one study, staff examined fare box revenue for one route. In another more recent study, the ITS Manager discovered there was a difference in actual monies collected in the fare box. The ITS Manger explained that this discrepancy does not impact the accuracy of operating revenues reported by the Agency. We believe that further review is required to positively identify the circumstances for the lack of operating revenue growth, such as continued examination of the functionality of fare box mechanisms, controls on daily and monthly bus passes to prevent multiple passengers from using one bus pass, and reconciling daily fare box receipts with daily ridership statistics.

Omnitrans Non-Operating Revenue Significantly Increased

Omnitrans' receipt of non-operating revenues shows that the Agency, like other transit agencies, relies heavily on state and federal transit grants and capital contributions. Non-operating revenues increased by 27 percent from $49.9 million in FY 01-02 to $63.4 million in FY 03-04, as shown in Table 1.0. However, too much reliance on grant revenue can pose problems should grants expire or the availability of federal transit revenues decline. Non-operating

revenues have allowed the Agency to maintain a positive net asset level for FY 03-04.

Table 1.0: Omnitrans Operating and Non-Operating Revenues from FY 01-02 through FY 03-04

	FY 03-04	FY 02-03	FY 01-02	Percent Change
Total Operating Revenues	12,857,415	12,284,437	12,259,540	4.9%
Total Non-Operating Revenues	63,442,785	47,261,780	49,773,510	27%
TOTAL REVENUES	76,300,200	59,546,217	62,033,050	23%
Non-Operating Revenue/Total Revenue	0.83	0.79	0.80	3.6%
Operating Revenues per Passenger	0.80	0.73	0.71	12%
Net Operating Revenue(Loss) per Passenger	(3.03)	(2.62)	(2.15)	41%

Source of Data: Omnitrans audited financial reports FY 01-02 to FY 03-04
Non-Operating Revenues include Local and Federal Grants, Interest Income, Capital Contributions, and other non-operating revenues as presented in the agency CAFR.

Growth in Operating Expenditures Outpacing Operating Revenues Poses a Potential Concern

Actual operating expenditures have increased 25 percent from about $49.1 million in FY 01-02 to $61.5 million in FY 03-04, as shown in Table 2.0. This has led to an increase in operating expenditure per passenger to $3.83 per passenger while operating revenues were at 80 cents per passenger.

Table 2.0 Omnitrans Operating and Non Operating Expenditures from FY 01-02 through FY 03-04

	FY 03-04	FY 02-03	FY 01-02	Percent Change
Total Operating Expenditures	61,486,917	56,338,850	49,131,421	25%
Net Operating Expenditures	48,629,502	44,054,413	36,871,881	32%
Net Operating Expenditures per Passenger	3.03	2.62	2.15	41%
Total Operating Expense per Passenger	3.83	3.35	2.86	34%

Grant Revenues Help Sustain Good Fiscal Health of the Agency

We examined five financial position indicators and four of them show improved fiscal health for Omnitrans. While net operating losses have increased 26 percent over a three year period to $56.7 million, Omnitrans' short-term availability of cash on hand to pay bills (e.g. current and quick ratios) has improved over the same time period, as seen in Table 3.0. The improved liquidity can be directly attributed to the increase in federal and local grants and capital contributions.

Without grant revenue, capital contributions and other non-operating revenues, operating income has not increased at the same pace as operating expenses. Also, the ratio of net operating income to net operating expenses has not improved, which again supports the conclusion that expenditures are outpacing revenues.

Table 3.0 Omnitrans Fiscal Health Indicators

	FY 2004	FY 2003	FY 2002	Percent Change
Net Operating Loss (Actual dollars)	(56,714,027)	(52,924,835)	(45,101,452)	26%
Current Ratio (liquidity)	2.96	2.88	2.20	34%
Quick Ratio (liquidity)	1.86	1.69	0.96	94%
Total Revenues / Total Expenditures	1.24	1.00	1.10	13%
Cash and Investment / Total Liabilities	1.11	1.18	0.96	16%
Net Operating Income / Net Operating Expenses	0.21	0.22	0.25	-16%

Prior Recommendations Show History of Recurrent Problems

We examined 36 recommendations made previously by Omnitrans' external financial auditors. These recommendations were all related to financial management and other compliance issues for public agencies. Specifically, the prior auditors had concerns over financial system issues, personnel, the absence of internal controls, and transaction processing.

Our evaluation on the progress made by Omnitrans to implement these recommendations showed that Omnitrans had addressed nearly all of them, but in some cases, the Agency took longer to address the recommendation because of turnover at the Finance Director position. We determined that 24 had been

fully implemented, ten were partially implemented, and two were not implemented. See Appendix 1 for a full description of Omnitrans' efforts to address the 36 prior recommendations.

In spite of corrective action taken by Omnitrans, many of these same issues -- personnel, financial system, internal controls, and transactions processing -- continued to surface at the time of our review. For example, new financial system implementation problems occurred with fixed asset accounting, recording employee compensation and retirement contributions. Specifically, staff must initiate manual adjustments to the accounting system to record fixed assets. Also, staff reported difficulties in reporting payroll contributions to PERS because of system incompatibilities.

Finance staff explained that during the financial system upgrade, a decision was made to roll out the system even though the system had not yet been fully tested by accounting staff. The Omnitrans General Manager explained that the Finance Department staff had the opportunity to inform the Agency management that more time was needed, but had failed to do so and actually agreed to the go live/roll out date without exception. Upon accepting the vendor's implementation of the new financial system, the vendor no longer had responsibility to address implementation issues as part of the original contract. Work orders were then generated by Omnitrans to address issues in fixed accounting, grant management, and other areas. From 1998 to June 2004, the Agency has spent $2.1 million on their new financial system.

Staffing Instability Has Significantly Contributed to Finance Department Problems

While people account for about 80 percent of our costs in public agencies, they constitute 100 percent of real assets. Without excellent human capital management, the Omnitrans Agency runs the risk of being unable to provide effective internal and external service delivery. Between 2001 and 2004, the Finance Department had three Finance Directors to manage and oversee staff who administer budget preparation, grant activities, payment of invoices (accounts payable), receipt of revenue (cash and receivables), tracking of assets (fixed asset accounting), closing of financial records (month-end and year-end closing), electronic funds transfers, and other finance-related activities.

Many of the Finance staff we interviewed reported a high level of discontent. At the time of review, five were planning to leave the Agency and one of them left as of November 15th. Staff reported various circumstances as follows:

- high workloads,

- manually intensive payroll processes,

- systems limitation in calculating Compensated Absences for PERS contribution,

- pressure from executive management to fix prior accounting and financial management system problems, poor communication and management among supervisors,

- inability to work the upgrade financial management information system, and

- micro management by the Accounting Manager.

The turnover experienced in the Finance Department has led to a number of adverse impacts, which are listed below.

- Created a heavier workload among the Human Resources Department staff because of continuous implementation of hiring and termination processes.

- Lessened the ability to maintain institutional knowledge that could help remedy the accounting problems encountered within the Department.

- Compounded poor communication between the departments during budget preparation activities because budgets were not always shared and staff were not aware of required budget meetings.

- Lessened the ability of staff to properly use the Agency's financial system. The Agency has spent $10,000 per session to continue to pay for system training to new Finance employees. Omnitrans recently addressed this and now has the ITS Department provide the necessary system training.

Recommendations

The Administrative Officer should:

1. Require two persons to collect and deliver the fare box revenue to the Omnitrans Finance Department.

Omnitrans Management Response

Agree. The Finance Department had recently identified this as an area of concern and will work with the appropriate staff to ensure proper controls are in place. Finance also will institute random audits of fare boxes.

In reference to the statement regarding the "fare box mechanisms routinely malfunctioning," reference is made to "Omnitrans Fare Box Reliability" which was previously shared with Macias (See Exhibit No. 2).   The fare box is one of the most heavily used components on a transit bus. It is important to remember that even though the fare box does fail from time to time from its high use, the majority of the time its work is very successful.

Last fiscal year where buses were removed from service for fare box related issues were as follows;
- *The failure rate for valid fare box road calls is 2.7 failures per/bus/year.*
- *Current Fiscal Year 05/06 is showing 66,831 mean miles between failures.*
- *Fiscal year 04/05 showed 29,364 mean miles between failures.*
- *Fiscal year 03/04 showed 23,923 mean miles between failures.*

For comparison, Orange County Transit Authority (OCTA) running a newer-model GFI fare box, experiences a mean miles between failures of 12,093. Riverside Transit also operates newer fare box and has a 7,910 miles between failures. Omnitrans' has more than doubled OCTA and more than tripled RTA.

2. Conduct an internal audit that reconciles passenger statistics with fare box collected for a one-month period to ensure that all fare box collected is submitted to the Finance Department for counting.

Omnitrans Management Response

Agree. At the direction of the General Manager a "GFI" Committee was recently established to ascertain the problems with the system and develop viable solutions.   The first meeting regarding "GFI" was held on October 4, 2005.

In reference to the statement regarding "controls of daily and monthly bus passes to prevent multiple passengers from using one bus pass," Omnitrans 1-day, 7-day and 31-day magnetic stripe bus passes are encoded to prevent immediate "pass-backs" to another passenger by making the pass invalid for reuse for a specified time span. We are not aware of any methods employed by other transit agencies to prevent multiple passengers from using the same magnetic stripe bus pass beyond the pass-back prevention feature. Asking for ID to verify ownership of all passes on board is not practical due the impact it would have on boarding times. Implementation of a smart card payment system in the future may offer enhanced controls. Additionally, a review of current bus pass usage shows that overuse is not excessive. For example, in October 2005, GFI data shows that full fare 1-day passes were used approximately 3.1 times on average while 31-day full fare passes were used and estimated 71.23 times, or 2.29 times per day, in a 31-day period In reference to the operating revenue, revenue is based on the actual funds received and deposited.

In response to the statement regarding "reconciling daily fare box receipts with daily ridership," we provide the following response. The Administrative Officer has requested that the Finance, commencing in February 2006 start performing random audits of fare box collections on a weekly basis.

In reference to the "on-time reports and information obtained from bus operators," the last sentence of that paragraph incorrectly states, "not all routes are tracked." Field Supervisors have always routinely monitored on-time performance of all fixed routes, both those directly operated and those that were operated by a contracted service provider. Every route, and all designated time, transfer and terminal points for each of those routes, are/were included in the Operations Dept. schedule adherence tracking logs and summary sheets.

3. Develop a three-year financial management plan designed to curb expenditures. This plan may consider lowering the threshold for Board approval of expenditures from $25,000 to $15,000.

<u>*Omnitrans Management Response*</u>

OMNITRANS on a yearly basis establishes as one of its priorities a "Cost Containment" Goal which is designed to reduce operating cost. We strongly "disagree" with the lowering of the threshold. It should be noted that the FTA allows for small purchases up to $100,000.

Regarding the receipt of "state and federal grants and capital contributions," transit agencies like the other modes of transportation, must seek federal, state and local funding in order to accomplish our transportation initiatives.

4. Develop a corrective action plan to resolve all outstanding system implementation issues by June 2006. This corrective action plan, at a

minimum, should address fixed asset reporting, workers compensation, and benefit reporting.

Omnitrans Management Response

Agree, however the completion should be based on the implementation issues and not arbitrarily selected.

5. Provide monthly reports to the Administrative Officer and Finance Director/CFO on budget vs. capital expenditures.

Omnitrans Management Response

Agree.

Section 4: Omnitrans Procurement Department Has Made Progress, but Significant Clean-Up Tasks Remain

Summary of Results

Purchasing controls ensure that appropriate financial and operational management controls are applied to the decision process in spending public money, and that these controls contribute to the effectiveness of service delivery and to the accountability of the authority process. Some key controls include the establishment of policies and procedures that dictate such practices as a "three way match" among the purchase order, the vendor's invoice and the company's receiving report, before the vendor is paid for any materials. Still other controls cover the access to the purchasing system and authority for requesting purchases to reduce the likelihood of fraud by requiring separation of duties between, for example, the receiver and the purchaser.

Our results of procurement activities found that the new Director of Procurement, Contracts Manager, and other staff took action to revise all procurement policies within the past year and made significant improvements in maintaining documentation for formal procurement processes. In other areas, however, much work remains for new management. A key weakness includes the lack of encumbering funds when purchase orders are generated, which means the Agency does not have a formal means of tracking expenditures against revenues available. Other areas involve ineffective monitoring of expenses applied to purchase orders and the lack of linking purchase orders to disbursement records although this has recently improved.

Contract Procedures Were Followed

Our analysis of purchasing controls at Omnitrans showed that the Director of Procurement, Contracts Manager, and other staff in 2004 took steps to enhance general operations, including improved contracting practices. We conducted a detailed review of selected contracts and found that agency procurement policies for issuing Request for Proposals (RFP), holding bidder conferences to discuss the requirements of the project, proposal evaluation and selection generally adhered to Agency and government procurement requirements. We found that in two contracts procured – one related to an external auditor and one for system implementation – potential vendors did not attend the bidder's conference. However, we determined that Omnitrans' announcements of RFPs are acceptable. The Agency maintains a bidder's list and other firms can submit their interest for any RFP that was issued. Contract record keeping since 2004 was notably better than prior years and one of the best among transit agencies that our firm has reviewed.

Procurement Policies and Procedures were Revamped, but Some Need Added Specificity

The new Procurement Director and procurement staff revised the Omnitrans procurement policies and procedures. Our analysis of the Omnitrans procurement policies and procedures show that they had been revised by September 2004. The revised set covers general policies, procurements, use of purchasing cards, and formal bidding procedures.

At the time of our review, we determined that some of the purchasing policies and procedures need development or enhancement. Specifically,

- New polices and procedures are needed to describe the type of condition that would warrant various types of contracts (e.g. firm fixed price, fixed price with escalation contracts, fixed price incentive contracts, requirements contracts, time and material contracts, and cost reimbursement.) These types of contracts and the conditions that would trigger their use were not addressed in the current set of policies and procedures that were provided to us. During the preparation of this report, Omnitrans management explained that these new policies and procedures were in development.

- Omnitrans' gift policy needs enhancement. Omnitrans policy #1050 states that all gifts or other gratuities from any party having or seeking to establish a business relationship with Omnitrans are discouraged but, the policy is not intended to prohibit the ordinary and accepted courtesies of business, such as promotional desk calendars, diaries, pencils and occasional meals. This policy is intended to prohibit receipt of valuable gifts and extended or expensive hospitality, although it does not set limits on the monetary value of the gifts accepted or define the term "occasional means". During our review of Omnitrans' implementation of prior recommendations, we noted that staff in one department have routinely accepted meals and other gifts from current and potential vendors between FY 01-02 and FY 03-04. While not prohibited by Omnitrans policy, six of 32 Omnitrans staff have variously accepted gifts in the form of golf outings, meals, football tickets, and other items within this time period. One staff member accepted the most gifts valued at about $2,300 over the three fiscal years we reviewed. These gifts were for tickets to sporting events, lunches and dinners for an employee and his spouse. Other Departments have also accepted similar types of gifts. In other public agencies, limits are established in policies on the value of gifts that can be accepted. Other public agencies prohibit any acceptance of gifts.

Internal Controls are Missing

While the new Procurement Director took steps to enhance operations during her short tenure, much work remains in the areas of establishing and implementing internal controls to guide procurement activities. Of the key controls we examined, including adherence to some existing procurement policies and procedures, none were effectively implemented.

No uniform or routine process for closing "open" purchase orders

Purchase orders provide written authorization for staff to make or order purchases. These orders generally include an authorized dollar amount for the purchase. When the dollar amount is reached, the purchase order should be closed and another order prepared. We found that Omnitrans does not have formal procedures established for closing purchase orders. Having purchase orders remain open even though no further purchases or payments have been made against the purchase order leaves the Agency vulnerable to employee misuse. For instance, an employee can use the purchase order to request other unauthorized purchases from a vendor. While examining all the purchase orders generated in FY 02-03, we noted that 38 of 3004 purchase orders valued at $129,895.62, remain open. Each purchase order as shown in Appendix 2 will need to be examined on a case-by-case basis to determine whether it should remain open or closed.

No formal controls are in place to prevent duplicate purchases

A strong purchase ordering process would include controls that would identify when potential duplicate purchases were requested. Our review indicates that the Omnitrans process for receiving purchase order requests and their preparation of them is not as strong as it should be. We identified 54 potential duplicate purchases. We attempted to determine whether all these purchase orders were for the same purchase, but because the Agency did not provide at least a "three-way match" between the purchase order, the vendor's invoice and the Agency's payment, we could not successfully perform this task. The value of the potential duplicate orders ranged from $34 to $2,500. The potential duplicate purchases are shown in Appendix 3.

Duplicate purchases may have occurred because Omnitrans has not yet established internal controls that would limit the number of staff requesting a purchase order or controls that would enable staff to recognize that a requested purchase may be a duplicate order. Presently, the procurement staff receive purchase order requests from multiple persons in the Maintenance and Operations Departments, and different procurement staff may generate the requested purchase orders. As a result, no check is in place to prevent duplicate orders. We determined that given the lack of controls, Omnitrans had been fortunate that no other duplicate purchases have occurred within the time frame of our review.

No formal controls over purchase order number issuance

Sequential numbering of purchase orders is a critical control because it manages the authorized distribution of them, and any gap in sequence would indicate a warning sign for potential misuse or fraudulent use of purchase orders.

Our analysis identified a significant number of gaps in purchase order number sequencing. Our analysis showed 871 gaps in numberings with about 1,067 individual purchase order numbers missing from the purchasing system. These gaps have occurred throughout the timeframe of our review. We determined that some of these gaps in sequence occurred because the orders were voided, cancelled, or part of a change order, but the record was deleted from the system, a significant control weakness. Staff reported that records are deleted if no payments or receipts were posted against the purchase order, if the wrong vendor was entered on the purchase order, or if it is a duplicate purchase order. A purchase order can be cancelled if goods were received, but returned. For other gaps, procurement staff could not provide an explanation on the gap in sequence.

Small purchases to the same vendors exceed thresholds that trigger Board of Director authorization

Omnitrans purchasing policies require General Manager authorization of expenditures that will exceed $15,000 or more and Board of Director approval for purchases that will exceed $25,000. Purchases below $15,000 do not need General Manager authorization, but Director approval is required.   Our analysis of purchase orders showed that Agency implements multiple micro, mini, and small value purchases whereby, on an annual basis, expenditures exceed, sometimes significantly, threshold amounts of $25,000 that would trigger Board of Director authorization. For example, Omnitrans uses several primary vendors for electrical purchases, such as light bulbs for buses. The purchase of electrical supplies for one of these vendors topped $500,000 since 2002. For FY 02-03 we found that up to 46 vendors exceeded expenditures that should trigger Board of Director approval. A senior procurement employee is responsible for monitoring purchase activity.

Agency allows purchases that exceed expenditure authorizations

As invoices are received from vendors, controls should be in place to determine whether the invoice amount matches the purchase order amount and the required items were delivered by the Agency.   Our analysis showed staff do not appear to be processing invoices even though the amount exceeds payment authorization. Of the 10,357 purchase orders examined within a three-year time period, 4,671, or 45 percent of the purchased orders had purchases that exceeded the authorized amount allowed by Omnitrans. The total amount of expenditures incurred beyond the purchase order amount was $482,239. The amount of over expenditures ranged from $5 to $18,961. The average over expenditure amount was about $104.

<u>Omnitrans cannot track on an agency-wide basis anticipated expenditures against available revenues</u>

Another fundamental procurement control is to have a procurement system that allows an agency to encumber funds. This would allow an Agency to "reserve" available funds to ensure that the money is available when the invoices are actually received from the vendor. Encumbering funds also aids in controlling anticipated expenditures against available revenue.

We found that Omnitrans' purchasing system, which is part of the Agency's new financial system, does not encumber funds upon preparation of purchase orders, which is a key internal control weakness for the Agency. We examined all purchase orders generated from FY 00-01 through 03-04 and found that 10,357 purchase orders were generated that were valued at about $65 million. Because the system does not encumber funds, purchase orders are generated without full knowledge of whether the Agency has the funds to pay the obligation. Instead, the Agency assigns this responsibility to each Department to make sure funds are available prior to the purchase. The Director of Procurement, who was not employed at the time of the purchasing system implementation, could not explain why the Agency opted to implement a system without an encumbrance feature. This issue will pose a challenge for the Agency in any attempt to reduce the growth in expenditures that was seen between FY 01-02 and FY 03-04.

Recommendations

The Director of Procurement should:

1. Establish specific dollar value of gifts that could be accepted and define how frequently, on an annual basis, that gifts could be accepted.

Omnitrans Management Response

Agree. The Administrative Officer will draft revisions to the policy and circulate for comments to Senior staff and County Counsel on or before April 1, 2006.

It is noted for the record that the gifts that were received by staff did not violate OMNITRANS policy or any State regulation. However, as noted above, we will consider establishing limits in accordance with industry standards.

2. Develop policies and procedures for prohibiting the deletion of records and gaps in sequence on purchase orders.

Omnitrans Management Response

Agree. Currently, when a purchase order is created and contains a non-modifiable error (such as an incorrect vendor number) the purchase order is deleted from the system prior to printing of the purchase order. This process deletes any record of the purchase order number from the system, thereby creating a gap in the numbering sequence. Procurement will begin immediately to institute a procedure that requires the staff performing the delete/void function to print the purchase order, add a narrative to the purchase order specifying why the order needs to be voided and reference the correct purchase order, then cancelled in the system. The purchase order number will remain in the system for audit purposes.

3. Develop policies and procedures for authorization controls. One person in each Department should be authorized to request purchase orders. A back-up person could also be designated as an authorizing official.

Omnitrans Management Response

Agree. However, upon review of the 54 possible duplicate purchase orders, the following was noted. Only 23 of the purchase orders could be a possible duplicate; however, these are for stock parts, which may appear to be duplicates; but may instead be related to a specific abnormal usage related to the maintenance of the equipment.

Travel is not centralized and therefore controlled by individual departments. There are 7 travel instances listed, which are not duplicates. It is noted that staff does coordinate travel at training and/or other conferences in order to obtain discount rates for more than one attendee.

Electrical motors and alternators being sent out to be rebuilt account for 13 of the possible duplicate purchase orders. Parts that are being sent out to be rebuilt are picked up on a bi-weekly basis and a separate purchase order is placed based on the item being rebuilt and the cost for the service.

One possible duplicate was for freight charges for two separate invoices for two different shipments. Another possible duplicate was for two separate arbitration hearings for different cases from the same arbitrator. Four additional possible duplicates were for separate locations for the same similar service. Two more possible duplicates were for completely different items but identical cost. One more was for recruitment advertising in the same publication on two separate dates with identical charges. The final two were for temporary staff in the Finance department.

Separate requisitions were entered over a week apart, which resulted in different procurement staff processing the purchase orders.

Procurement staff did not learn that multiple requisition items could be combined into a single purchase order until the Ellipse upgrade process in 12/2004. Currently, the Procurement staff that process purchase orders, combine requisitions if possible on a single purchase order.

4. Prohibit the deletion of purchase orders and prohibit system access for staff to delete them.

Omnitrans Management Response

On a monthly basis starting in January 2006, an "Open Purchase Order Balance Report" will be shared with user Departments for their review and the assigned Procurement staff for monitoring.

5. Require that monitoring of purchasing expenditures is performed on a monthly basis to ensure that the expenditures do not exceed authorized purchase amounts.

Omnitrans Management Response

Agree. Report has been re-activated through "Crystal Reports" which shows, by date and department, the open orders and balance remaining on each. Report will be run and distributed on a monthly basis, beginning in January to allow departments to review and monitor their Purchase orders. Procurement will also review and monitor the reports for all departments and advise if changes are

recommended such as a Board approval, request for closure, expediting assistance, etc.

The Ellipse system has a "fund checking feature" which Procurement staff will work with ITS to determine if it can be utilized to "encumber funds." Currently as previously stated, it is the responsibility of the Departmental Directors to ensure that funds are available based on current policy number 1020, section 2.3.2.

6. Ensure that staff provide monthly reports to the Procurement Director on expenses that exceed authorized amounts and total expenditures that have exceeded $25,000 thresholds.

Omnitrans Management Response

Disagree. On the report provided to the Auditors, the original PO amount shown did not include any PO changes. Purchase orders tagged as overpaid, had subsequent change orders, or were within the $ 5.00 tolerance for invoice discrepancy. PO monitoring report will be distributed monthly; beginning in January to assist in identifying PO's that need Board approval or increases.

The Ellipse system does not permit invoices to be entered for payment if there are not sufficient funds for payment, nor does it allow for overpayment against a purchase order.

7. Require departments to implement formal procurement activities for aggregate purchases that may exceed $25,000 per year.

Omnitrans Management Response

Agree. Procurement will work with ITS to develop an additional PO report to show vendors and POs that are over $25,000. This report will be prepared monthly, reviewed for compliance with policies for Board approvals. Procurement staff will also review to locate vendors and products for which multiple department/agency-wide contracts can be established.

8. Implement fixed price contracts for current vendors who are not under contract with the Agency for the purchase of operations and maintenance parts and supplies.

Omnitrans Management Response

Agree. Procurement will prepare bids, beginning in January for all non-OEM parts with firm fixed price agreements to begin no later than the beginning of next fiscal year. OEM part vendors will be required to submit pricing information on an ongoing basis. Buyer and Purchasing Specialist will be responsible for monitoring vendors and getting current pricing information and maintaining the information in the Ellipse system.

9. Develop policies and procedures on the types of contracts that could be entered   into and the circumstances for them.

Omnitrans Management Response

Agree. The Procurement Director has finalized a draft of these new policies and procedures, which will be shared with the Senior Staff and County Counsel for comment. A target date of on or before April 1, 2006 has been established for final approval.

10. Require distributions of Request for Proposals to all companies and organizations shown on the Agency's bidder lists.

Omnitrans Management Response

Agree.

11. Establish procedures for the annual review of purchase orders that are eligible for closing.

Omnitrans Management Response

Agree.

Section 5: Omnitrans Information Management Processes Have Weaknesses

<u>Summary of Results</u>

Our review shows that Omnitrans does not have a successful track record of adhering to generally accepted information management practices, which can be attributed to the lack of effective Central IT management over projects implemented within the Agency. Our review of 12 key practices, based on information and documentation from the Omnitrans staff, indicated that the Agency is not carrying out established and uniform procedures. This has led to prolonged system implementation, lack of central oversight and inadequate project planning.

IT Best Practices Are Not Generally Followed

Information technology best practices identify the following critical success factors in an organization's project management environment:

- The value of a project is established in a business case and is approved by the required level of senior management prior to project initiation.
- Experienced and skilled project managers are available.
- There is senior management sponsorship of projects, and stakeholders and IT staff share in the definition, implementation and management of projects.
- Business sponsors are held accountable for ensuring and demonstrating the achievement of expected benefits.
- There is an understanding of the abilities and limitations of the organization and the IT function in managing large, complex projects.
- An organization-wide project risk assessment methodology is defined and enforced.
- All projects have a plan with clear, traceable work breakdown structures, reasonably accurate estimates, skill requirements, issues to track, a quality plan and a transparent change process.
- Effort is focused on ensuring traceability of approved business case objectives to business and systems requirements, and into the design and building of the system.
- The project system architecture is developed within the context of the enterprise architecture plan and guidelines.
- The transition from the project team to the operational team is a well-managed process.
- A system development life cycle methodology has been defined and is used by the organization.
- The projects implement clear quality management strategies.

In our review of the Omnitrans' IT projects, we noted that the Agency has or is in the process of implementing 23 IT projects, as shown in Table 4.0. For example, Omnitrans plans to increase the number of servers in use from 50 to 62 to accommodate upcoming system projects, one of which is a $8 million GPS system which is scheduled to go live by March 2006.[1] Other planned IT projects include a service pack upgrade for the Agency's core financial management information system, upgrades for the Agency's e-mail system, and for the Kronos time keeping system.

Table4.0: Omnitrans IT projects, FYs 2003-2005

	Project/Activity Name	**TRC Review**	**ITS Sponsor**
1	Kronos implementation and interface	No/NA	
2	Implementation of Trapeze FX module (original)	No/NA	
3	Implementation of Trapeze Info-Com module	No/NA	
4	Move and integrate Trapeze Pass to EV from I street and create redundant connection for access	No/NA	
5	Relocate ITS department and Agency's datacenter	No/NA	x
6	Upgrade MIMS 4.3 to Ellipse 5.2.3 and streamline work functions and processes	Yes	x
7	Implement SAN with cluster services for Ellipse and Trapeze databases	Yes	x
8	Refine and develop Omnitrans Intranet web page and services	No/NA	x
9	Implement TrackIT work order tracking and inventory system	No/NA	x
10	Implement Video surveillance and electric door access system	No	
11	Implement Kiosk's and signs	No	
12	Core network equipment upgrade and reconfiguration	No/NA	x
13	TSS Bus based video surveillance systems upgrade	No/NA	
14	Founded the TRC process for project approvals	No/NA	x
15	Implement SPAM and virus filtering	No/NA	x
16	Create and provide new user training packet	No/NA	x
17	Citrix upgrade and Farm Expansion	No/NA	x
18	Provide user training classes for office applications	No/NA	x
19	Enabled web content filtering and monitoring	Yes	x
20	Formalized the software change control procedure	No/NA	x
21	Created "MIMS Ellipse Enhancement Team"	Yes	x
22	Establishment of computer training facility	No/NA	x
23	Upgrade GFI equipment and software	No/NA	

---

[1] The IT Manager explained the majority of the cost and efforts are to replace the entire radio based communications system in all revenue and most non-revenue vehicles for both the fixed route and the para-transit fleets, including fixed site base and Dispatch equipment, as well as adding ADA complaint annuciators to the fixed route fleet, which is an FTA Title VI compliance mandate.

We determined that none of these IT projects had documentation that showed that all 12 key IT principles were followed. We further examined two critical IT projects related to transit reporting and financial management and found that the implementation of the projects significantly exceeded initial timeframes for project completion. These IT projects include a $371,000 Trapeze implementation and the financial management system implementation, respectively. Trapeze is a software application that allows tracking, scheduling, and reporting on the timeliness of routes. Omnitrans had anticipated this project would require six months, but it is now in its second year of implementation because the application is not working properly. The ITS Manager explained that the vendor was not permitted to roll out the application until system issues are resolved, and that the Agency has not incurred additional expenses. The other IT project is for implementing and upgrading the Agency's core financial management system. The Agency continues to work on this implementation that began in 1998 at an initial cost of $659,000. The Agency plans to implement another upgrade in 2006 for enhanced reporting capability on the core financial management system, but we found no assessment had been performed on the Agency's reporting needs to determine whether the module could accomplish them.

As we previously reported, Omnitrans formed a Technical Review Committee as a result of the difficulties with the budgeting application implementation. Departments presenting projects for consideration must complete a project plan describing the goals, scope, assumptions, anticipated resources needed, organizational benefits, risks of implementing, risks of not implementing, and contract issues. However, Omnitrans does not always utilize the TRC to consider the feasibility of the IT projects. To date, only one completed project, the Storage Area Network project, has gone through the TRC process. For this project, the ITS Manager reported that the implementation proceeded as expected. While individual IT projects are reviewed by the TCR, there was no evidence in the project files that the projects under consideration were aligned to the overall business objectives of the organization as a whole, or how the IT projects would complement, integrate operations, or address the business needs of the Agency. Should other staff within the Agency want different software, the ITS Department will evaluate both and determine if there is an integrated solution for all, prioritize needs, make the determination if the project benefits the agency to see if they should go forward or hold off.

IT Project Planning is Decentralized

The lack of centralized IT management has been a contributing factor to past IT project problems. The Department, headed by a manager instead of CIO, or an ITS Director, does not have decision-making authority to determine if projects are well suited for the Agency. Also, we noted that each Department Director has the autonomy to propose IT projects without sufficient consideration of the business requirements of the Agency and consideration of how the IT project will impact

other IT systems or whether the new system can easily integrate with other systems in use. Of the 23 projects administered since FY 01-02, eight projects listed were sponsored by departments other than ITS and the ITS Department provided assistance, such as repairing bus video surveillance equipment and electric door and cameral placement. Another 13 activities were IT-initiated and were not completed on a timeline, such as initiating training in office applications, creating an organizational intranet, and implementing IT Track-it, to internally manage work orders requested by Omnitrans employees for IT-related issues. The ITS Department also created M.E.E.T., or MIMS Ellipse Enhancement Team and recently formalized the software change control procedure. For the remaining two IT projects – Storage Area Network (SANS) and MIMS upgrade to Ellipse - the ITS Department served as the project sponsor and provided oversight of the vendors. However, for large IT projects, agencies generally hire an independent certified project manager to oversee IT implementation.

From our analysis of the IT project files we learned that minimal records were kept on work performed on projects not directly sponsored by ITS, or on IT's implementation or upgrading of software over a short period of time. In many cases there were no records. The ITS Manager explained that files were maintained by the sponsoring department. The two files that the ITS Department sponsored were well maintained and included the necessary documentation for IT implementation, such as project plans and department sign off sheets.

IT Administrative Policies and Procedures Should be Consistent With Industry Guidance

To help ensure effective IT functioning within the Agency, Omnitrans should have IT administrative policies and procedures in place. The Agency's IT policies and procedures should cover the following areas:

- Use of Public Property.
- Information Technology Services Copyright.
- Electronic Mail and Internet Access. Section should be added making users aware of anti-virus procedures.
- Telecommuting Section should be added requiring the use of a VPN connection when connecting externally to the agency's computer network.
- Software change control.

These topics, as well as the other formal agency policies should be disseminated to all employees who are required to submit signed acknowledgements of receipt. As new policies are created or updated and approved by the Board of Directors, they should be sent out to employees.

We determined that as was the case in procurement policies and procedures, Omnitrans had key operating standards that were not addressed. Based on

industry standards for information management, Omnitrans should develop and implement additional IT administrative policies and procedures covering:

- Physical Security of Computer Assets
- Ownership of Information, Data, and Software
- Company Access to Computer Information and Hardware
- Information Security
    - Password minimum length
    - Password configuration standards such as the inclusion of alphas, numerics, and special characters
    - Required password expiration periods
    - Number of password changes until a password can be reused
    - Keeping user IDs and passwords private and secure
    - Reporting of suspect activities
    - Antivirus awareness and precautions
    - Handling of confidential information

These policies are particularly important because we noted that the ITS Department does not monitor system access at the I Street Maintenance Facility, which leaves the Agency vulnerable to unauthorized system use.

Recommendations

The Omnitrans Administrative Officer should:

1. Require a person outside of the Agency to sit on the TRC Committee. This person can be an IT employee from another County department or other transit agency. ITS manager should select the third-party participant.

Omnitrans Management Response

Disagree. ITS recently contacted APTA's IT Committee chair and was advised that she was not aware of any transit organization having a third party on its TRC or IT Steering Committee.

It should be noted that several of the projects listed in Table 4.0: Omnitrans IT projects, FYs 2003-2005, were commenced prior to the creation of the TRC. However, ITS has on an on-going basis provided guidance and support.

In reference to the "GPS system for buses valued at over $8 million," the description as listed by Macias is dramatically understated. The majority of the cost and efforts are to replace the <u>entire radio based communications system</u> in all revenue and most non-revenue vehicles for both the fixed route and the paratransit fleets, including fixed site base stations, antennae and Dispatch equipment as well as <u>adding ADA complaint annunciators to the fixed route fleet,</u> which is a FTA Title VI compliance mandate.

2. Require the ITS Department to be solely responsible for conducting a needs assessment for each IT project over $5,000 to include:
   a. A cost/benefit analysis
   b. An assessment of technical requirements
   c. Analysis/comparison of several products or solutions
   d. An assessment of implementation issues, including conversion and training.

Omnitrans Management Response

Agree. Prior to the development and implementation of the Technical Review Committee (hereinafter referred to as the TRC), it was customary within the agency for departments to consult with ITS on an as-needed basis regarding their IT-related projects to ensure compliance within the agency. In reference to "software implementation and application change management policies and procedures," on September 16, 2005 the IT Manager shared a copy of the agency's "ERP System Change Control" and approval process.

3. Develop the Omnitrans' IT Strategic Plan in conjunction with the Agency's overall business plan. This helps to ensure that IT goals and objectives are closely aligned with the Agency's overall business objectives.

Omnitrans Management Response

Agree. The IT Manager has been charged with the responsibility of creating an IT Strategic Plan, which supports the Agency's overall vision and related business objectives. This plan should be developed by July 1, 2006.

4. Periodically review the IT Strategic Plan during the budget process to ensure that the Plan continues to be aligned with Omnitrans' overall business objectives and to ensure that the ITS Department is kept abreast of ongoing budgetary issues that could affect the Plan's implementation.

Omnitrans Management Response

Agree.

5. Immediately develop a corrective action plan to address system deficiencies of Omnitrans' core financial information system.

Omnitrans Management Response

Agree. ITS will work with Finance to resolve all outstanding issues in a timely manner.

In response to the Comshare issue raised in Section 2, Special Issues Show Costly Error, it is Management's position that a "comprehensive needs assessment" is relative based on the agency/company's needs at the time the software is being purchased. As customary in the transit industry, Management did consult with other transit agencies and was provided with a copy of the Los Angeles County Metropolitan Transportation Authority's (hereinafter referred to as MTA) "Market Survey for Budget Package Evaluation." Omnitrans staff conducted a similar market survey, which included a demo of various budget software packages. This information was utilized in developing and finalizing the agency's scope of services for the RFP. A copy of the RFP was provided to MACIAS and a review will clearly support Management's position that an assessment of the agency's need, software implementation and application was included in the procurement process. See Exhibit No.1.

Comshare (budgeting application software)being implemented without the necessary network infrastructure is an incorrect statement. According to the IT Manager, there were no special network infrastructure requirements for the Comshare application and ITS made no such objection. Omnitrans specified that the application be Web enabled so that overhead and maintenance to the desktop PC's be minimized and Comshare was able to provide that capability.

43

6.   For large-scale IT projects, hire a certified IT project manager to oversee the project implementation, instead of having department managers assume the function.

Omnitrans Management Response

Agree, however OMNITRANS is mindful of the fact that "project manager" training/development is also a goal for ITS staff.

It is noted that prior to the creation of the TRC, OMNITRANS lack a formalized central process for the submission of IT related projects. However, it is equally important to state that role of ITS continues to evolve. The current Manager has been empowered with decision-making authority and is currently on the same pay scale as a Director. For example, the current Manager has been charged with the responsibility of "creating a road map" for making strategic IT decisions for driving technology initiatives and investments in the agency.

The development of an IT Strategic Plan (technology plan) would help determine how to best deliver IT services and technology projects through efficient and effective IT management and a modern technology platform. The focus of this technology plan is on implementing the needed IT management processes, technology infrastructure and organizational capabilities necessary for OMNITRANS to realize its vision and achieve its strategic goals.

OMNITRANS is seeking to minimize its dependence on outside consultants/contractors by developing internal staff. However, we acknowledge the need for specialized skill sets in addition to utilizing trained Project Managers for major projects.

7.   Develop overall policies and procedures governing IT project management and project implementation.

Omnitrans Management Response

Agree. IT staff is in the process of developing and revising existing policies and procedures.

8.   Update Omnitrans' IT Administrative Policies and Procedures to cover the following areas:
   a. Physical Security of Computer Assets
   b. Ownership of Information, Data, and Software
   c. Company Access to Computer Information and Hardware
   d. Information Security
      i.   Password minimum length
      ii. Password configuration standards such as the Inclusion of alphas, numerics, and special characters
      iii. Required password expiration periods
      iv. Number of password changes until a password can be reused

     v.   Keeping user IDs and passwords private and secure
    vi.   Reporting of suspect activities
   vii.   Antivirus awareness and precautions
  viii.   Handling of confidential information

Omnitrans Management Response

Agree. Although ITS currently performs and maintains these important functions they are not published to or understood by all employees. The personnel policies manual will be updated to include the listed items on or before April 1, 2006.

Management provides this response in reference to "I" Street as a contractor site is not being monitored by ITS. ITS does not monitor the Internet activity or computer utilization of the vendor at "I" Street as it does Omnitrans employees. However for security purposes ITS does strictly limit the access the vendor has to Omnitrans' Computer Network Resources and the Internet.   "I" Street computers can only access and affect one server within the Omnitrans data center.   This specific server has been designated for use with the Trapeze application exclusive for the "I" Street vendor.   Utilizing Citrix ICA technology, specific firewall port access, and local server user access only; the vendor is limited to running one application on one server through one TCP/IP port through our firewall.   I Street has no other access to resources within Omnitrans data center what so ever. Internet access is similarly limited by PC workstation. Only the Vendors Managers have Internet access and Email access through the "I" street network. The Firewall within the "I" Street network infrastructure prevents Internet access to all of the other vendor's employees.

45

Section 6: Omnitrans Human Resources Management Shows Adherence to Hiring and Termination Policies and Procedures

Summary of Results

Overall, we determined that the Omnitrans Human Resources Department performed recruiting, hiring, and employee terminations according to policies and procedures. Also, we noted that the Human Resources Department implemented training efforts and culture enhancement methods by conducting team-building activities. Finally, we examined issues raised by Omnitrans employees regarding hiring selected employees, and the rate of turnover among Omnitrans employees. Our results show no favoritism in hiring occurred among selected employee positions and the rate of termination varied by Department, with Finance and Procurement Department (at the Managerial level) having the highest turnover.

Omnitrans Has Adequate Human Resource Capital Management Rules

The Omnitrans Human Resources Department is headed by a Director who has been with Omnitrans since January 1999. Since her tenure, Human Resources policies and procedures have been revised and updated from January 1999 through May 2004. These policies and procedures cover areas such as: Compensation, Performance Evaluation, Benefits, Rules and Regulations and General Administration.

Based on our analysis, Omnitrans probationary period policy is one area that needs to be reexamined by the Agency. The policy states that the length of the probationary period is six (6) months for new employees. Probationary period progress reports are made by the Appointing Authority or designee on forms provided by the Human Resources Department and may be made in increments of any sequence of thirty (30) days performance. A mandatory probationary period progress report is required after the completion of five months (at which point the recommendation concerning Regular status must be made and approved by the Appointing Authority).

The probationary period can be viewed as the final phase of the selection process for potential hires. We believe that terminating employees without documenting a reason during the final phase is justified as long as the selection process is based upon prescribed civil service requirements. Omnitrans management reported that attorneys for San Bernardino County reviewed and approved the Agency's probationary policy.

It is essential that probationary policies establish clear criteria for evaluating performance during this period to avoid the risk of unfounded allegations of discrimination. Unlike the following counties and city, Omnitrans does not have clear termination criteria in place. In our reviews of the probationary policies of San Bernardino and Santa Barbara Counties, we found that the Appointing Authorities determine if performance falls below acceptable standards. Our review of another city, Coronado, revealed more comprehensive criteria for rejecting probationers for reasons relating to the probationer's qualifications, the good of the service, or failure to demonstrate merit, efficiency, fitness, and moral responsibility. The City of Coronado adopted a civil service system for the City, pursuant to the provisions of the Government Code of the State of California, Section 19173. This policy also stated that the probationer not be rejected for any cause constituting prohibited discrimination. During the probationary period, a written notice is sent to the person that includes: (A) an effective date for the rejection that shall not be later than the last day of the probationary period; and (B) a statement of the reasons for the rejection. The Federal Government also follows the requirements set forth in 5CFR 315.804 of notifying the probationer in writing as to the reason for termination and the effective date of the action.

All the probationary policies that we examined from other jurisdictions included disclosures that probationers do not have the right to appeal a termination unless unlawful discrimination is alleged as basis for termination.

Hiring Practices Are Reasonable

Our analysis of employee hiring showed that Omnitrans implements appropriate outreach, recruiting and advertising for position vacancies, and follows its internal policies and procedures for hiring.

When an opening is available, the Department Director completes a Personnel Requisition Form, which requires approval by the General Manager or CEO. Policies specify that no recruiting activities are to be performed outside of Human Resources. We reviewed 28 requisitions for regular employees and found that appropriate protocols were followed.

All open positions are publicized through posted announcements in Omnitrans' offices, on official bulletin boards, and through other modes of publication we reviewed:

- Internal Postings. We observed job postings in Omnitrans' lobby, including folders for each open position that contained applications and position descriptions. These folders were placed on a table adjacent to the Human Resources office window. We also observed job postings in the hallways.

- <u>Advertising</u> – The Human Resources Department also placed newspaper advertisements in classified and other business sections of appropriate newspapers. We reviewed four vacancy listings for open positions to see if they included salary levels, roles and responsibilities, instructions for submitting employment applications, and the EEO disclosure.

- <u>Job Hotline (public):</u> This number was present in newspaper listings and web site listings.

- <u>Website (public):</u> We examined five open positions at various times throughout the review.

- <u>Kiosks (internal):</u> These Kiosks are placed throughout the Omnitrans buildings.

Applications are completed on forms provided by the Director of Human Resources, in a PDF format that can be downloaded from the organization's website, or on-line newspaper job advertisement links. Applicants can also pick up hard copies at Omnitrans. Each application requires information covering training, experience, and other pertinent information and must be signed by the person applying. Resumes are accepted as a supplement but not in lieu of the standard Employment Application.

After the completion of a selection process, the Director of Human Resources prepares and maintains an employment list of qualified applicants from the selection process. The qualified applicants are then listed according to the ranking established at the completion of the selection process; the list remains in effect for up to one year.

We reviewed thirteen eligibility lists for current positions that could be utilized when openings occur. We also reviewed 18 past eligibility lists and found that three current employees were obtained from the eligibility lists, further documenting Omnitrans' use of the lists as recruitment tools.

We examined issues posed by staff that Human Resources had hired "pre-selected" candidates in the Finance Department and found no evidence of favoritism. All Accountants and Financial Analysts have degrees in business and accounting. All Managers have at least a Bachelors degree. Two payroll staff had moved up from the counting room, but were qualified in terms of experience and professional certifications.

Regarding a recent hire of the Finance Analyst Position, we identified that only seven persons applied for that position.   The Human Resources Director explained that because of salary levels among administrative positions and the

geographic location of Omnitrans, qualified candidates often do not apply. The Finance Analyst position took longer to fill than other vacancies within Omnitrans. For FY 03-04, the Human Resources Department calculated the average time for filling vacancies in each department as 88.25 days or 12.61 weeks. Filling the Finance Analyst position, took an average of 144 days or 20.57 weeks, or 55.75 days or 7.96 weeks longer than the average time to fill other vacancies within the organization. Prolonged vacancies in key positions do not provide the leadership needed in the Finance Department.

We examined reports that hiring rules were manipulated to rehire a former Finance employee to a grants position without the formal hiring process. This individual worked as a temporary employee (as a senior accountant) through a temporary hiring agency from October 2004 through April 2005 and worked as a permanent employee for Omnitrans for one month. During her work assignment the employee performed exceptionally well. When the employee applied for the permanent Finance Analyst position, she was hired, worked for one month, but left for another position elsewhere. When Omnitrans recruited again and conducted an organizational analysis to determine staffing requirements in the Finance Office, this same person applied again. Since Human Resources was unsure if the analyst position would exist after the analysis, she was hired as a contract employee for three months. We learned that the Omnitrans rationale for this hiring was the elimination of the training time required for a new employee and the minimal supervision required due to the employee's proven expertise. In addition, the employee had the necessary skills for the year-end audit of grant reconciliation. We determined that Omnitrans had not manipulated hiring rules and had maintained all the required documentation, such as the requisition, application and contract describing the length of employment and payment terms.

Employee Training is Regularly Provided to Higher Level Employees

Our analysis on employee training showed that Omnitrans has conducted regular training sessions. As shown in Table 5.0, the Agency has provided 107 opportunities for managers to receive training, which also includes instruction on the Agency's upgraded financial management information system in FY 03-04. Lower level staff reported receiving training in Microsoft Excel, Word, and Access. Nearly all administrative staff that we spoke to were pleased with the training offered by Omnitrans; however, some employees explained that grant training was needed in the areas of federal grant requirements and the regulations that govern FTA grants. Omnitrans recently hired a Grants Manager with grant-related experience. New staff in payroll also expressed the need for training in public employee retirement systems. We also noted that many employees in Finance were trained in-house on the financial management system functions.

Table 5.0: Number of Training Opportunities per Department

Department	FY 02-03	FY 03-04	FY 04-05
Contracts	1	1	1
Procurement	6	11	4
Finance	7	16	8
ITS	7	37	8
Total	21	65	21

Employee Evaluations Protocols Appear to be Followed

Our analysis of employee evaluations indicated that administrative staff had received regular and routine appraisals. Employees are rated on communication, customer responsiveness, quality, problem solving, teamwork, cost consciousness, job knowledge, planning and organization, managing people, leadership, and safety. Goals for the next appraisal period are listed, as are specific actions the employee or management can take to reach those goals. Of the 15 evaluations reviewed, all had been explained to the respective employee and acknowledged by staff. An employee who had disagreed with her evaluation during the probationary period was terminated and did not appeal the decision.

Separation Lists Show High Turnover in Finance

Our evaluation of employee separations showed that Omnitrans has experienced an average of 31 percent turnover rate within the Finance Department, as shown in Table 6.0. This turnover will likely continue based on information provided to us by staff who have plans to leave the Agency. During the course of our review, the Accounting Manager had left Omnitrans to accept another position.

Table 6.0: Omnitrans Finance Department Turnover

Fiscal Year	Number of Employees	Number of Employees that Left	Turnover Rate
FY 02-03	14	4	28%
FY 03-04	15	5	33%
FY 04-05	15	5	33%
		Average Turnover	31%

The Finance Office experienced its heaviest turnover between FY 02-03 and FY 04-05 when 14 employees had left the Agency. Five of the 14 employees were

terminated and the remaining nine employees voluntarily resigned for other jobs or from job dissatisfaction, as shown in Table 7.0.

Also, we determined;

- Two Directors of Finance left for other jobs. One of the two reported that job dissatisfaction was the reason for leaving. In addition, the most recent Director of Finance left in early FY 05-06.

- Six Financial Analysts voluntarily resigned. Four of the six left for other jobs and the other two employees reported job dissatisfaction as the reasons for leaving.

- Three other employees – two Financial Analysts and one Senior Financial Analyst – were terminated within their probationary periods. One of these employees contested and the Agency paid $2,000 for a well-qualified mediator to resolve the issue, but the employee opted against attending a scheduled meeting and did not pursue the appeal of termination any further.

- One Payroll Technician, one Countroom Clerk and one Administrative Clerk within the Finance Office were terminated.

Table 7.0: Finance Position Turnover and Reasons

Fiscal Year	Position	Reason	Separation Type
FY 02-03	Sr. Financial Analyst	Probationary	Terminated
FY 02-03	Financial Analyst	Dissatisfied	Voluntary
FY 02-03	Director of Finance	Other Job/Dissatisfied	Voluntary
FY 02-03	Accounting Manager	Moving	Voluntary
FY 03-04	Financial Analyst	Probationary	Terminated
FY 03-04	Financial Analyst	Dissatisfied	Voluntary
FY 03-04	Director of Finance	Moving	Voluntary
FY 03-04	Count Room Clerk	Other	Terminated
FY 03-04	Admin Clerk	Did not return from LOA	Terminated
FY 04-05	Financial Analyst	Other Job	Voluntary
FY 04-05	Financial Analyst	Other Job	Voluntary
FY 04-05	Accountant	Dissatisfied	Voluntary
FY 04-05	Financial Analyst	Moving	Voluntary
FY 04-05	Payroll Tech	Other Violation of Company Policy	Terminated

The Procurement Department has also experienced a high turnover at the managerial level. Between FY 02-03 and FY 04-05 Omnitrans had four Contracts Managers, as shown in Table 8.0. Two of them had left for other jobs and one for medical reasons. As previously reported in the Special Issues section of this report, one of the Contracts Managers left within the probationary period and all

applicable termination policies were followed. Omnitrans now has a Procurement Director hired in September 2004 with prior experience as a buyer for the County of San Bernardino and as a purchasing agent for the City of San Bernardino.

Table 8.0: Procurement Position Turnover

Fiscal Year	Position	Reason	Separation Type
FY 02-03	Contracts Manager	Other Job	Voluntary
FY 02-03	Contracts Specialist	Did not return from LOA	Terminated
FY 03-04	Contracts Manager	Probationary	Terminated
FY 03-04	Contracts Manager	Medical	Voluntary

Nine other positions had turnover in other Omnitrans departments – Planning, Human Resources, ITS, and Marketing – between FYs 03-04 and 04-05, but the level of turnover appeared reasonable, as shown in Tables 9.0 through 12.0.

Table 9.0: Planning Position Turnover

Fiscal Year	Position	Reason	Separation Type
FY 03-04	Planning Clerk	Other job	Voluntary
FY 04-05	Planning Manger	Other Job	Voluntary
FY 04-05	Planning Analyst	Attend school	Voluntary

Table 10.0: Human Resources Position Turnover

Fiscal Year	Position	Reason	Separation Type
FT 03-04	HR Specialist	Unknown	Voluntary
FY 04-05	Personnel Clerk	Insubordination	Terminated

Table 11.0: Information Technology Services Position Turnover and Reasons

Fiscal Year	Position	Reason	Type
FY 04-05	Systems Specialist	Violation of Company Policy	Terminated
FY 04-05	Systems Specialist	Probationary	Terminated

Table 12.0: Marketing Position Turnover and Reasons

Fiscal Year	Position	Reason	Type
FY 04-05	Marketing Specialist	Did not return from LOA	Terminated
FY 04-05	Marketing Clerk	Other job	Voluntary

Agency-Wide Terminations Varied From Year-to-Year

Agency-wide, most involuntary separations (terminations) were most likely to occur due to violations to company policy, during probationary periods, or from workman's compensation compromise and releases, as shown in Table 13.0. Terminations of coach operators were more frequent than other staff. Of 41

coach operator dismissals occurring between FY 02-03 and FY 04-05, 39 percent were due to violation of company policy and another 27 percent stemmed from workers compensation issues.

Table 13.0: Agency-Wide Terminations and Reasons

Termination Reason	FY 02-03	FY 03-04	FY 04-05	Totals
Attendance	0	1	0	1
AWOL	1	0	0	1
Did not return LOA	1	1	1	3
Insubordination	0	1	1	2
Positive Random Test	2	0	1	3
Violation of Company Policy	4	5	10	19
Probationary	8	5	8	21
Workman's Comp – Released	0	5	8	13
Totals	16	18	29	63

Efforts Were Made to Enhance Organizational Culture

To address persistent turn-over issues among the administrative functions in Omnitrans, the Director of Human Resources was responsible for implementing several initiatives. These include, for instance:
- 360 degree evaluations,
- Executive team building sessions, and
- Team building sessions within the Finance Department.

Recommendations

The Director of the Human Resources Department should:

1. Coordinate with other transit agencies to obtain best qualified lists.

Omnitrans Management Response

In July 05, HR has started working with RTA on their final candidates for certain management open positions. We have not had any successes as of this date but will continue our efforts. We are very careful as our hiring processes can be different with greater expectations. Our job titles may be the same but the job descriptions may be different. We must be assured that we are hiring for the same critical job functions, knowledge, skills and abilities.

2. Enhance probationary policies to require documentation of all reasons for involuntary terminations.

Omnitrans Management Response

Disagree. Management will review this recommendation with County Counsel and take action based on their advice. Management disagrees with the statement "effective human resources management would dictate preparation of documentation showing a legal reason behind the termination."

3. Include in all Human Resources policies and procedures specific public laws and regulations that govern them.

Omnitrans Management Response

Management will review this recommendation with County Counsel and take action based on their advice.

Section 7: Other Issues Reviewed

Tracking and Recording Leave Absences
for Union Leaders Needs to be Further Reviewed

All Union leaders from 2001-2004 reported discrepancies in how leave is recorded by management when they temporarily leave their stations to attend Union Business. Past and current representatives reported that leave for union business had been incorrectly reported as sick-leave. The Omnitrans labor agreement allows Union representatives to temporarily leave their duty stations to attend to union-related business.

Omnitrans policy states that employees are subject to termination should they incur 10 days of "absences". Also, Article 19, Shop Steward's Provision requires Union representatives to submit vacation/sick leave forms at least 24 hours in advance when they are requesting excuse from their regular driving assignment in order to conduct union business in order for it to be considered "authorized union business" and exempted from charged absences.

Most of the Union representatives that we interviewed explained that fairness was a critical component in how Omnitrans should implement its Union leave policies. For example, one union representative explained that the Agency will contact them on very short notice to represent an employee at a meeting and will find a replacement bus operator, if needed. However, when the Union requires other business, the representatives must provide Omnitrans with at least 24 hours notice so that the Agency can find a replacement bus operator.

Equipment Damages Incurred by Transportation Concepts
Needs to be Further Reviewed

Omnitrans staff raised issues regarding the Agency's vendor (Transportation Concepts) that was contracted to provide Fixed Route Services and Para-transit Services. Per Omnitrans' contract with the vendor, Omnitrans provided all the required vans (coaches) for service delivery. However, staff reported that the coaches for the Fixed Route were often damaged and Omnitrans incurred the expenses for needed repairs. Our further review noted that the issue raised by Omnitrans staff had merit. The coaches were returned to Omnitrans in a condition well below Omnitrans' standards, and Agency mechanics had to bring the vehicles up to standards. Omnitrans reported that the lack of prior maintenance, parts availability difficulties, lack of information from vendors as well as cleanliness issues have made putting the coaches out on the road a significant task. Additionally, Omnitrans has also had to pay overtime for

mechanics, helpers and utility service workers to accomplish this task.

General Manager Acceptance of Gifts from Transportation Concepts Appears Reasonable

Omnitrans staff raised issues about the acceptance of golf outings and other gifts provided to the Omnitrans General Manager from Transportation Concepts, the Agency's service provider for paratransit services. Our review of Financial Interest Disclosure Forms for the General Manager from FY 01-02 to FY 03-04 found the acceptance of these gifts appeared reasonable. Based on information that we obtained from a public agency ethics departments, the acceptance of golf outings may not be unreasonable particularly if other public officials were invited because they can be viewed as promoting the Agency. Also, rules were followed for reporting the gift.

Omnitrans Did Not Incur Additional Costs For Disposing of Bridgestone / Firestone Tires

Omnitrans staff raised an issue that Omnitrans incurred additional costs for the disposal of Bridgestone/Firestone tires that were bought by the Agency to close out a tire contract in 2004. Upon our further review, we determined that the Agency had not incurred additional expenses for the tire disposal. The new tire agreement with the Goodyear Tire Company included provisions for the removal and disposal of the Bridgestone/Firestone tires, which is customary for these types of contracts.

Unfriendly Working Environment is Present

Throughout our review of Omnitrans administrative functions, many of the Omnitrans staff consistently described the Omnitrans organizational culture as unfriendly. Reasons cited by staff were as follows:
- the inability to question management without fear of losing their job
- decisions made by managers and directors are often overruled by the General Manager
- limited and/or no flexibility for professional staff in accomplishing daily work demands (e.g. flextime)

In November 2005 Omnitrans contracted with a vendor to conduct an Employee Opinion Survey. With a 60 percent participation level, 58 percent of respondents rated one question pertaining to work environment as favorable. Another

question pertaining to job satisfaction showed a 73 percent favorable rate.[2]

Our examination of Omnitrans personnel policies determined that although Managers and staff have the authority to make decisions, the Omnitrans General Manager appropriately has final authority. Also, our observation of the skills and abilities of the current Administrative Officer, Managers and Directors in the Human Resources, Procurement, and ITS divisions found them to be sufficient to warrant greater autonomy on the overall operations of their departments.

Inappropriate Conduct in the Workplace Has Occurred

Our review noted that Omnitrans staff have reported inappropriate sexual conduct among the management levels of the Agency. Our analysis showed the incidents reported to us match the prohibited conduct stated in Omnitran's Sexual Harassment policy[3], and although the staff did not view the gestures and verbal comments as "harassment", but inappropriate conduct in the workplace. Omnitrans management questioned the credibility of the issue because grievances or other reports regarding the conduct were not filed with the Agency. The staff we interviewed expressed fear of retaliation that prevented them from reporting the inappropriate conduct.

Changes in Finance Department Structure May Need to be Reconsidered

In July 2005, the Omnitrans Board of Directors approved changes to Finance Department job descriptions after the Director of Human Resources completed a study on job descriptions in other transit agencies and determined the need for restructuring the Finance Department. At the time of our review, the Finance Director's staff included a Finance Director, an Accounting Manager, three

---

[2] Omnitrans 2005 Employee Opinion Survey Initial Presentation from December 15, 2005. Presented by HR Solutions, Inc.

[3] Omnitrans Sexual Harassment Policy defines sexual harassment as:
- Verbal conduct such as epithets, derogatory jokes or comments, slurs, or unwanted sexual advances, invitations or comments.
- Visual conduct such as derogatory and/or sexually-oriented posters, photography, cartoon, drawings, or gestures.
- Physical conduct such as assault, unwanted touching, blocking normal movement or interfering with work because of sex, race, or other protected basis.
- Threats and demands to submit to sexual requests as a condition of continued employment, or to avoid some other loss, and offers of employment benefits in return for sexual favors.
- Sexual harassment includes unwelcome sexual advances, requests for sexual favors, and other offensive verbal or physical conduct that is either sexual in nature or directed at someone because of his or her gender. Sexual harassment undermines the employment relationship by creating an intimidating, hostile, or offensive work environment and

Financial Analyst positions, and other staff level positions. The new structure would add two new distinct positions -- Budget Manager and Grants Manager -- and eliminate two of the three existing Financial Analyst positions. However, the Finance Department may be better served with a Chief Financial Officer position, in lieu of the Finance Director position. The Omnitrans General Manager explained that having a Budget Manager will allow the Agency to more effectively conduct financial management activities, such as budget monitoring. A CFO, however, can also conduct these activities as well as provide fiscal forecasting and develop financial management plans that would help the Agency mitigate its growth of expenditures. In early December 2005, Omnitrans filled the Grants Manager position.

Recommendations

The Human Resources Director should:

1. Omnitrans should clarify to Union representatives how absences are charged for Union business.

Omnitrans Management Response

Leave for union business has not been incorrectly recorded as sick leave and employees are not terminated for simply incurring 10 days of sick leave. The reasons for absences are recorded based solely and entirely on what the employee states as the reason for absence. When an employee states the reason for absence is to take care of union related business, either on a leave request or verbally when calling off work, it is recorded as such. When the employee states in either manner of communication that the absence is for a personal illness or injury, it is recorded as sick.

*The Attendance Policy covering coach operators is not just a "company policy", it is, and has consistently been, a provision of the **formal labor agreement** with whichever labor union represented the coach operators at any given time. It has never been tied directly to the use of sick leave which has been covered as a completely separate provision in the labor contracts. Currently, Article 27 (Attendance) of the Memorandum of Understanding between the Amalgamated Transit Union, Local 1704 and Omnitrans outlines the agreed upon attendance policy which did not change significantly from the prior ATU labor agreements. The opening statement explains that "This is a no-fault absenteeism policy..." and describes a method for 'counting' absences up to a maximum of two per each period (no matter what the total length) of absence from work for categories of absences that are not specifically excluded ('authorized union business' is one specifically excluded) from the policy as outlined in the Article. The availability or actual use of the sick leave benefit for personal illness/injury is not considered in any way in this policy. Article 27 clearly states that "Ten (10) chargeable, counted absences within a floating twelve (12) month period will be considered grounds*

58

for discharge" and that "progressive discipline will be applied to employees who have excessive absenteeism." It also outlines the progressive discipline to be applied and clearly states the appeals process and references the Grievance Article 22.

The report states, "In one instance, Omnitrans did terminate the employment of a Union representative when the Agency incorrectly reported the representative's official union business as sick leave. The now former Union representative took legal action against the Agency and was awarded his job with back pay." The only person with any union related position to be dismissed from employment in the Operations Department for attendance related issues was a former Union Representative. The first dismissal action occurred on August 28, 1988 and the charged absences he had incurred in that time frame leading to his separation were not related to union activity (he was not a union officer at the time as I recall). He was eventually reinstated in April 1999, not as a result of any legal action he initiated, but during the formal grievance process as outlined in the labor agreement. His reinstatement was related to his eventual submission of arguments and documentation that reversed his final charged absence as it may have fallen under the FMLA protections if his notice of proposed dismissal had not been issued in such a timely manner. This particular employee did, however, on two different occasions (1998/99 and 2002) file 132A claims with the California Workers' Compensation Appeals Board attempting to claim discrimination as a result of his industrial injury incidents. His union activities were never mentioned in those proceedings that we are aware of. In both cases his claims were denied as having no merit and he was not awarded any compensation as a result.

This particular employee was again dismissed from employment under the attendance provision of the labor agreement on November 11, 2004. Some of the charged absences in that action were reported to be for union business, however, his requests did not comply with other provisions of the labor agreement in order to be exempted from the attendance policy. He did not file a grievance within the time frames specified in order to take advantage of the Grievance provisions provided under the labor agreement to seek reinstatement. Instead, he and the ATU filed an 'unfair labor practice" charge with the California Public Employees Relations Board. A formal hearing was held on the matter, however, the decision/recommendation of that hearing officer has not yet been received.

Again, this issue is currently pending before the Public Employees Relations Board at the request of the ATU. The matter is not scheduled to go to a 'court' until/unless the ultimate PERB decision was unfavorable to one of the parties and they chose to take it to a court venue or this particular employee, who is at the center of their current review of our implementation of the Shop Steward's Provision of the labor agreement, elects to file a legal action, which as far as Management knows, he has not done.

59

Article 19, Shop Steward's Provision, of the current labor agreement (prior labor agreements had similar provisions) requires that "The ATU Officer or Steward must also submit an "Omnitrans Employee Vacation/Sick Leave Request Form" at least 24 hours in advance…" when they are requesting excuse from their regular driving assignment in order to conduct union business in order for it to be considered "authorized union business" and exempted from charged absences outlined in previously referenced Article 27. This 24 hours notice requirement is only half of what is required for all other types of advanced requests for time off which is 48 hours.   See Articles, 19, 22, 27, Memorandum of Understanding between Amalgamated Transit Union, Local 1704 and OMNITRANS, April 1, 2004 – March 31, 2007.

The Director of Procurement should:

2. Conduct a compliance audit of the Transportation Concepts contract.

Omnitrans Management Response

Agree.   An internal audit has been performed based on a prior audit recommendation.   In response to the "equipment damages" issue listed under Section 7, Other Issues Reviewed, during the audit period, Omnitrans had two separate and entirely distinct contracts with Transportation Concepts. Inc. One was for the operation of fixed routes 7, 8, 9, 30, 31 and 90 for which we provided Trolleys and transit buses (coaches) that they operated from their facility in Riverside under the direction of a dedicated project manager for that contract. The other contract was for paratransit services to include our Access (ADA mandated for the disabled) and OmniLink services for which we provided smaller paratransit vehicles (referred to as vans in the audit comments) that they operated from our facilities in San Bernardino and Rancho Cucamonga under the direction of a different dedicated project manager for this second contract.

*The vehicles provided under **Paratransit Contract** have been exceptionally well maintained and cared for as evidenced by quarterly vehicle inspections conducted by Omnitrans' maintenance staff and in site visits and pull out inspections conducted by Omnitrans' operations staff. The contract maintenance facilities at both San Bernardino and Rancho are well stocked, orderly and clean.*

*The separate **Fixed Route Contract**, however, was an entirely different story. It was discovered during similar site inspections in Riverside and quarterly maintenance inspections (as well as on street observations) that the trolleys and transit coaches provided were not well kept or maintained. After attempting to gain compliance with the provisions of the contract for the maintenance of our vehicles for several months, that contract was terminated on August 31, 2005. The fixed route vehicles were returned to us in very poor condition and have required a great deal of time, money and effort to bring them back up to our*

60

standards. We have meticulously tracked all of the expenses we have incurred (including labor and overtime pay) via the Work Order process in maintenance and will be fully reimbursed by Transportation Concepts, via a deduction from the final contract invoices, if necessary, which have been held in abeyance pending completion of all of the needed repair work. On December 9, 2005, the Director of Procurement has advised Transportation Concepts that invoices totaling $331,397.44 were being held due to cost associated with maintenance issues and delivery and acceptance of remaining vehicles.

The Director of Human Resources should:

> 3. Sponsor leadership training for all managers and above.

Omnitrans Management Response

The Agency has established a training budget and routinely provides training on a regular basis. For example, we have scheduled the months of January, February and March 2006 for the 360 evaluations for the CEO/General Manager, Directors and Managers. Leadership training for Supervisors and above is ongoing and most recently began in October 2005 and will continue throughout FY06. In addition, since April 20001 OMNITRANS has held several "team building" training for various departments.

In response to the statement made regarding Grants and retirement systems training we provide the following information. Our files indicate training in the public employee retirement plan was made available to HR in 2001 and 2003; and Finance in 2002 and 2003. Workshops are available in San Bernardino for the public employee retirement system. Specific PR report training is available in May of 2006 in Glendale and in Orange, CA in September 2006. The annual CalPERS conference is scheduled for October 23, 23, and 25th 2006 in Indian Wells, CA.

On January 5, 2006 staff in Planning and Finance was invited to participate in an "Interactive Audio Conference" on Time and Effort Reporting for Federal Grants: A Guide to Careful Documentation.

The agency will review the department training schedules, budgets for travel and training, and the need for this training vs what has been scheduled in this FY. Consideration will be requested in those areas of need for FY06. Planning for FY07 is scheduled.

> 4.   Distribute a monthly newsletter from the General Manager to promote better communication and to prevent rumors from spreading.

Omnitrans Management Response

The Agency has a monthly newsletter, and we have and will continue to include articles from the CEO/General Manager.

In reference to the first bullet regarding "on the inability to question management with fear of losing their job," a review of the agency's involuntary terminations (this information supplied in the Turnover Reports) does not support this type of comment. Retaliation is not tolerated and is stated in policies and in practice. In response to the second bullet regarding "decisions often being overruled by the General Manager" again has not been substantiated and rarely occurs. Regarding the third bullet on "flexibility for professional staff in accomplishing daily work demands (e.g. flextime)," information on the flextime is under a Standard Operation Procedure authorized by the CEO/General Manager with the approval of the Board of Directors. It grants the Department Directors the latitude to set work hours. The options available are 9/80; 4/40; and 5/8. Changes in workload, employee performance, coverage, funding legal mandates etc. may result in Directors having to cancel or suspend the compressed work schedule at anytime.

5. Reinforce the importance of adhering to the Agency's Sexual Harassment policy.

Omnitrans Management Response

The Agency completed the AB1825 training in the spring of 2005 for all supervisors and above. The CEO/General Manager distributed a letter to all Employees in December 2005 emphasizing the importance of our harassment policy and our commitment to the process, encouraging employees to come forward with issues and concerns without retaliation.

On December 6, 2005 Management was advised that the "incident" did not constitute sexual harassment and the employee had advised Macias that they did not report the incident to Management. The CEO and Management staff is committed to ensuring the workplace is free of any form of harassment. Reference is made to Exhibit No. 5, which documents and reinforces this commitment [Employee Notice, dated December 19, 2005, attachment "Sexual Harassment Hurts Everyone]

In reference to the section in Section 7, Other Issues Reviewed, the first sentence indicates staff has reported inappropriate sexual conduct among the management levels of the Agency with no specific information. Then in the last two sentences of the paragraph it is contradictive in that it states "the conduct was not filed with the Agency. The staff interviewed expressed fear of retaliation that prevented them from reporting the inappropriate conduct. The Agency has a policy and process that we have followed.   We have addressed internal complaints and taken appropriate action.   The policy stipulates that at the

conclusion of the investigation the action taken is not made known to the complainant – this maybe part of their perception that nothing is being done.

6. Consider developing an organizational structure for the Finance Departments that includes a CFO position rather than a Finance Director position and eliminates the Budget Manager position.

Omnitrans Management Response

This recommendation will be taken under advisement.

Section 8: Conclusions

In the past three years, Omnitrans has had its share of issues to address that pertain to: ineffective system implementation issues and IT cost overruns, employee error, staff turnover especially at the managerial level, and the lack of effective internal controls. Another issue of significant concern is the rapid growth of expenditures within Omnitrans and lack of processes and budgeting systems in place to curb expenditures in the future. While the expenditures have been offset by a significant increase in state and federal transit grants, operating revenues have remained generally flat. If the Agency continues its spending patterns, the inability to generate larger operational revenue will pose other problems for the Agency.

Although Omnitrans has spent time and resources addressing prior recommendations, such as financial system implementation problems and staff retention strategies, these and other problems regarding internal controls continue to persist, preventing the Agency from moving forward in enhancing their operations. The ability for Omnitrans to retain staff in the Finance and Procurement Departments will be a significant indication of whether the Agency can stabilize its operations. While most of the official reasons reported by past directors and managers – within the Departments that we examined – for leaving Omnitrans were related to accepting jobs elsewhere, we encountered considerable morale issues among the supervisory and staff levels within the Agency and widespread dissatisfaction with general management that cannot be dismissed. While the Agency has taken noteworthy steps to promote team building and organizational development, the benefits in building stronger cohesion have not yet occurred. Finally, of particular concern are Agency plans to continue financial system implementation when past system issues and problems have not yet been fully addressed. With over $2.1 million spent on the financial system since 1998, the Agency should reconsider how it plans to move forward with new system upgrades.

The issues we identified throughout this report could be remedied without a high degree of difficulty. Some of the enhancement needed in internal controls could be addressed and decided upon by the highly capable managers and directors working in the ITS, Human Resources and Procurement Departments, but some of the larger issues in establishing better communication protocols, working with the vendor to fix financial system issues, and ensuring that future needs and plans of the Agency are considered when taking any corrective action or implementing new initiatives need to be handled by effective leadership from the General Manager. To ensure that there is continuous and sustained strengthening of administrative operations, regular and routine monitoring by an audit committee is needed by the Board.

Section 9: Omnitrans Recommendations

We identified 37 recommendations for Omnitrans that would help strengthen overall efficiency and effectiveness of administrative services. These recommendations suggest what Omnitrans should be doing to help strengthen the quality of its operations and do not suggest how the Agency should implement them, which are decisions best made by Omnitrans management.

Financial Management

The Administrative Officer should:

1. Require two persons to collect and deliver the fare box revenue to the Omnitrans Finance Department.

2. Conduct an internal audit that reconciles passenger statistics with fare box collected for a one-month period to ensure that all fare box collected is submitted to the Finance Department for counting.

3. Develop a three-year financial management plan designed to curb expenditures. This plan may consider lowering the threshold for Board approval of expenditures from $25,000 to $15,000.

4. Develop a corrective action plan to resolve all outstanding system implementation issues by June 2006. This corrective action plan, at a minimum, should address fixed asset reporting, workers compensation, and benefit reporting.

5. Implement a budgeting software application, other than Excel, that allows for grant management and tracking, and provides reports on budget vs. actual expenditures.

6. Provide monthly reports to the Administrative Officer and Finance Director/CFO on budget vs. capital expenditures.

Procurement

The Director of Procurement should:

7. Establish specific dollar value of gifts that could be accepted and define how frequently, on an annual basis, that gifts could be accepted.

8. Develop policies and procedures for prohibiting the deletion of records and gaps in sequence on purchase orders.

9. Develop policies and procedures for authorization controls. One person in each Department should be authorized to request purchase orders. A back-up person could also be designated as an authorizing official.

10. Prohibit the deletion of purchase orders and prohibit system access for staff to delete them.

11. Require that monitoring of purchasing expenditures is performed on a monthly basis to ensure that the expenditures do not exceed authorized purchase amounts.

12. Ensure that staff provide monthly reports to the Procurement Director on expenses that exceed authorized amounts and total expenditures that have exceeded $25,000 thresholds.

13. Require departments to implement formal procurement activities for aggregate purchases that may exceed $25,000 per year.

14. Implement fixed price contracts for current vendors who are not under contract with the Agency for the purchase of operations and maintenance parts and supplies.

15. Develop policies and procedures on the types of contracts that could be entered into and the circumstances for them.

16. Require distributions of Request for Proposals to all companies and organizations shown on the Agency's bidder lists.

17. Establish procedures for the annual review of purchase orders that are eligible for closing.

18. Conduct a compliance audit of the Transportation Concepts contract.

<u>Information Management</u>

<u>The Omnitrans Administrative Officer should:</u>

19. Require a person outside of the Agency to sit on the TRC Committee. This person can be an IT employee from another County department or other transit agency. ITS manager should select the third-party participant.

20. Require the ITS Department to be solely responsible for conducting a needs assessment for each IT project over $5,000 to include:
    a. A cost/benefit analysis
    b. An assessment of technical requirements
    c. Analysis/comparison of several products or solutions
    d. An assessment of implementation issues, including conversion and training.

21. Develop the Omnitrans' IT Strategic Plan in conjunction with the Agency's overall business plan. This helps to ensure that IT goals and objectives are closely aligned with the Agency's overall business objectives.

22. Periodically review the IT Strategic Plan during the budget process to ensure that the Plan continues to be aligned with Omnitrans' overall business objectives and to ensure that the ITS Department is kept abreast of ongoing budgetary issues that could affect the Plan's implementation.

23. Immediately develop a corrective action plan to address system deficiencies of Omnitrans' core financial information system.

24. For large-scale IT projects, hire a certified IT project manager to oversee the project implementation, instead of having department managers assume the function.

25. Develop overall policies and procedures governing IT project management and project implementation.

26. Update Omnitrans' IT Administrative Policies and Procedures to cover the following areas:
    a. Physical Security of Computer Assets
    b. Ownership of Information, Data, and Software
    c. Company Access to Computer Information and Hardware:
    d. Information Security.
        i.   Password minimum length
        ii. Password configuration standards such as the Inclusion of alphas, numerics, and special characters
        iii. Required password expiration periods
        iv. Number of password changes until a password can be reused
        v.   Keeping user IDs and passwords private and secure
        vi. Reporting of suspect activities
        vii. Antivirus awareness and precautions
        viii. Handling of confidential information

Human Resources

The Director of the Human Resources Department should:

27. Coordinate with other transit agencies to obtain best qualified lists.

28. Consider developing an organizational structure for the Finance Departments that includes a CFO position rather than a Finance Director position and eliminates the Budget Manager position.

29. Enhance probationary policies to require documentation of all reasons for involuntary terminations.

30. Distribute a monthly newsletter from the General Manager to promote better communication and to prevent rumors from spreading.

31. Reinforce the importance of adhering to the Agency's Sexual Harassment policy.

32. Include in all Human Resources policies and procedures specific public laws and regulations that govern them.

33. Sponsor leadership training for all managers and above.

34. Omnitrans should clarify to Union representatives how absences are charged for Union business.

Omnitrans General Manager

The Omnitrans General Manager/CEO should:

35. Provide quarterly progress reports to the Omnitrans Board of Directors on the status of the Agency's efforts to implement the recommendations included in this report.

Omnitrans Management Response: *The CEO/General Manager will seek guidance from the Board of Directors regarding this recommendation.*

Omnitrans Board of Directors

36. The Omnitrans Board of Directors should establish an internal audit committee comprised of Board members and a County official. Internal audits that need to be conducted are as follows:

   ➢ Grant accounting processes and reconciliation of grant expenditures
   ➢ Wire transfer protocols
   ➢ Fare box collection and reconciliation
   ➢ Passenger count processes
   ➢ Control environment of Omnitrans' Department of Operations
   ➢ A contract audit of the Transportation Concepts
   ➢ Evaluation of equipment damages and the reimbursement by Transportation Concepts
   ➢ Timekeeping practices
   ➢ Organizational analysis of the General Manager's front office to determine whether an Assistant General Manager is needed.

- o Examine whether Human Resources Director should report to the Director of Administrative Services rather than the General Manager.
  - o Examine whether the Director of Administrative Services positions should be a Deputy General Manager position with additional responsibilities.
- ➢ An evaluation of employee promotion practices within the Operations Department.

37. The Omnitrans Audit Committee should conduct an independent review of the status of the Agency's efforts to implement the recommendations presented in this report.

Appendix 1: Status of Prior Recommendations

We examined 36 recommendations made previously by Omnitrans external financial auditors between Fiscal Years 01-02 through 03-04. These recommendations were related to financial management and other compliance issues for public agencies. Specifically, the prior auditors had concerns over financial system issues, personnel, the absence of internal controls, and transaction processing.

As shown below, we provide the status of the recommendations that were made for that time period reported followed by a description of the efforts to address the recommendation by Omnitrans.

Status of Recommendations

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
1	01-02	Omnitrans should contact its software vendor to identify and rectify control weaknesses in MIMS system setting and research the erroneous entries made in order to correct them. In addition, adequate training for MIMS system should be provided to finance and accounting staff to reduce human errors in the future.	✔		
2	01-02	Omnitrans should engage outside experts to perform a study on its personnel issues. Omnitrans should establish policies and procedures to train and cross train staff among accounting functions, and enforce internal control for recordkeeping in the financial accounting and reporting areas.	✔		
3	01-02	Management should employ qualified personnel for the Accounting Manager and other staff accountants' positions, establish policies and procedures to train and cross train staff among accounting functions, and enforce internal controls for record keeping in the financial accounting and reporting areas.	✔		

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
4	01-02	Omnitrans should file the FTA and other required financial or operation reports, such as NTD report and the SCO report, on a timely basis to be in compliance with the provision of laws, regulations, contracts, and grants.	✓		
5	01-02	The Finance Department needs to adopt policies and procedures regarding posting audit adjustments and other financial transactions timely to Omnitrans' general ledger system.	✓		
6	02-03	Omnitrans should formally document all significant accounting procedures and policies to ensure the continuity of these operations in the event of turnover and other circumstances. By establishing consistently applied policies and procedures, Omnitrans may reduce the risk of material discrepancies in the Agency's financial position, manual intervention of transaction, duplication of efforts and increase the strength of the internal control environment.	✓		
7	02-03	Finance should train its staff with respect to the tasks and activities of other functions within the department in order to maintain continuity of operations.	✓		
8	02-03	Omnitrans should review the monthly statements and reconciliations to verify that the payments made were for appropriate claims or services. Omnitrans should also work with the TPA to ensure that differences between the amounts requested for replenishment are consistent with outstanding items on the reconciliations. Further, for the worker's compensation TPA accounts, similar information should be obtained.	✓		

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
9	02-03	Omnitrans should establish a filing system to ensure that all required documentation for the annual allocation instructions, amendments and correspondence are properly maintained in order to ensure compliance with TDA statutes.	✓		
10	02-03	Omnitrans should develop a formal, documented plan, which should include the following items: • Objectives of the plan; • The individual to be responsible for the overall implementation of the disaster plan; and • The assignment of responsibilities to appropriate information system personnel and the specific procedures to be performed by these individuals and their subordinates. • Test the plan to determine whether it will be workable in an emergency situation and whether Omnitrans has considered all significant points relative to disaster planning.		✓	
11	02-03	Omnitrans should develop and document procedures that will enable the Information System function to respond appropriately to requests and yet provide for an audit trail of actions to take to resolve the problem. Documentation of user request and information services resolution activities, particularly in emergency situation, is critical to ensuring the integrity of the production environment.	✓		
12	02-03	An Omnitrans supervisor or manager within the Finance Department should review and approve the monthly bank reconciliations.	✓		

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
13	02-03	Omnitrans should consider making changes to the payroll module that would prevent payroll technicians from making changes to employee pay rates. If this is not feasible, Omnitrans should implement a process whereby a "change report" is reviewed by a supervisor to determine that changes made by the payroll technicians are authorized.	✓		
14	02-03	Omnitrans should implement procedures to ensure matching requirements are properly met.			✓
15	02-03	Omnitrans should develop internal procedures to adequately monitor the general ledger and subsidiary systems and correct the lack of consistent accounting procedures.	✓		
16	02-03	Omnitrans should work with its financial software vendor to identify existing functionalities to address the need for offline manual tracking of transactions and better utilization of the systems batch processes. Also, Finance personnel should be properly trained on the use of the MIMS system given the level of turnover experienced. In addition, we recommend that the Agency's internal Accounting procedures be reviewed to identify business practices changes to coincide with the information system capability.	✓		
17	02-03	Omnitrans should conduct a capital asset inventory to properly identify the existence of assets owned. In addition, we recommend that Omnitrans work with its financial system vendor to identify the most efficient use of its capital asset module to ensure proper tracking.		✓	
18	02-03	Omnitrans should develop and implement		✓	

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
		procedures to properly manage its grant receivables and related activities. These procedures, should include, at a minimum the following: • Project coding at the purchase order level to easily isolate expenditures tied to specific grants • Invoicing or billing to the grantor agencies on a monthly basis • The utilization of a project costing module, or the like to capture grant costs in an electronic manner that can be easily identifiable to specific funding streams (Grants) • Monthly reconciliation of the expenditures incurred, amounts invoiced and cash received by the grant to the general ledger. • Monthly review of the grants activity by an accounting supervisor or manager. • Establishment of individual grant binders with related schedules and support to clearly identify the audit trail.			
19	02-03	Omnitrans should develop and formalized procedures to ensure proper cut off is achieved as part of the agency's year-end closing procedures.	✓		
20	02-03	Omnitrans should implement procedures to ensure integrity and accuracy of financial information, as the general ledger is the Omnitrans official record of financial activity. These procedures should include the monthly cutoff of transactions that can be retroactively applied to prior monthly reporting periods and ensuring a consistent accounting close at year end.	✓		
21	02-03	Omnitrans should work with its financial software vendor to either develop or obtain	✓		

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
		training for the utilization of aging reports for its receivable and liability account balances. The use of these reports assists management in identifying the deterioration of the collectability of receivables and assists in identifying stale dated payables. Further, using this type of information is prudent in the analyzing of financial data and identification of errors.			
22	02-03	Omnitrans should conduct a physical inventory in order to identify the population of Omnitrans capital assets. This information should be reconciled to Omnitrans subsidiary ledger. Further, we recommend that Omnitrans develop procedures to track capital assets acquired with federal funds to include the following: • Capturing fixed assets acquired identifying the specific allocations of local, state, and federal funding sources. • Reconciling the capital asset activity between the subsidiary and general ledger. • Reconciling the results of the periodic physical inventory to the Finance Departments capital asset subsidiary ledger on a timely basis.		✓	
23	02-03	Omnitrans should implement procedures to ensure that federal program reporting requirements are followed. We recommend that the reporting functions reside in a centralized manner within Finance. The reporting procedures should be initiated by the department administering the grant with a review of the information by Finance for accuracy and consistency with the general ledger. Such a procedures and structure should ensure that Federal status reports are filed on a timely basis and that the information is supported by Omnitrans financial records.		✓	

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
24	02-03	Omnitrans should implement procedures to monitor sub recipients on an annual basis to ensure compliance with FTA requirements including Buy America provisions, Davis Bacon and allowable costs. Based on the level and nature of the activity performed by the sub recipients, Omnitrans should consider requesting copies of invoices and/or performing a project closeout examination.		✓	
25	02-03	In concert with its implementation of the financial statements findings 2003-01 through 2003-07, Omnitrans should implement year-end closing procedures to ensure that the audited financial statements are submitted in accordance with the TDA section noted above.		✓	
26	02-03	Omnitrans should implement procedures to properly identify and separate TDA funds between operating and capital activities. Further, as part of the audit process, all advanced grant amounts should be supported by records of the allocation to specific projects. By implementing such procedures, Omnitrans may develop a better audit trail to support its compliance with expenditures provisions of the TDA.		✓	
27	02-03	Omnitrans should contact its software vendor to identify and rectify control weaknesses in system setting, and research the erroneous entries made in order to correct them. In addition, adequate training for MIMS system should be provided to finance and accounting staff to reduce human errors in the future.		✓	
28	03-04	Omnitrans should implement procedures to restrict directors and other key personnel from having access to Omnitrans assets			✓

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
		and other sensitive information upon termination or resignation. These procedures should be incorporated as part of the employee's/director's exit interview. By implementing such measures, Omnitrans strengthens the control environment and safeguards its assets.			
29	03-04	Omnitrans should implement procedures to better identify, process, and record activity related to compensation absences. By using standardized reports from the financial system, Omnitrans may reduce the risk of significant misstatement and ensure accurate financial reporting.	✓		
30	03-04	Omnitrans should implement procedures to periodically reconcile information generated from the payroll module to the general ledger for accuracy.	✓		
31	03-04	Omnitrans should determine if it is necessary to prepare minutes of the Finance and Audit Committee meetings.	✓		
32	03-04	Omnitrans should implement procedures to incorporate contract references on purchase orders in order to easily cross-reference and administer contracts.	✓		
33	03-04	Omnitrans should implement procedures to ensure that all applicable contract file requirements are maintained in accordance with internal policy.	✓		
34	03-04	Omnitrans should implement a periodic reporting mechanism to provide accountability and progress with respect to its capital budget.		✓	
35	03-04	Omnitrans should establish a filing system	✓		

No.	Fiscal Year	Recommendation	Implemented	Partially Implemented	Not Implemented
		to ensure that all required documentation for the annual allocation instructions, amendments and correspondence are properly maintained in order to ensure compliance with TDA statutes.			
36	03-04	Omnitrans should ensure that all Form 700s are filed timely as required by the Fair Political Practices Commission	✓		

Description of Efforts Made by Omnitrans to Address Prior Year Recommendations

Recommendations that Were Fully Implemented

Recommendation #1 – Omnitrans should contact its software vendor to identify and rectify control weaknesses in the MIMS system setting and research the erroneous entries made in order to correct them. In addition, adequate training for MIMS system should be provided to finance and accounting staff to reduce human errors in the future. (Internal Control)

Description of Effort

Omnitrans continues to work with the vendor of the MIMS system to correct and enhance functionality. Also, Omnitrans has regularly performed training on the system with Finance staff and provides training as needed when new Staff joins the Agency. This training had recently been provided by the ITS Department after vendor training was proving too costly for the Agency.

Recommendation #2 – Omnitrans should engage outside experts to perform a study on its personnel issues.

Description of Effort

In 2005, Omnitrans Board approved a $5,000 contract with the County of San Bernardino to undertake a study to determine whether the turnover rate at Omnitrans is comparable to other agencies.

Recommendation #3 – Management should employ qualified personnel for the Accounting Manager and other staff accountants' positions, establish policies and procedures to train and cross-train staff among accounting functions, and enforce internal controls for record keeping in the financial accounting and reporting areas.

Description of Effort

In June 2003, Omnitrans hired a qualified Accounting Manager who left the Agency on November 15, 2005. Other positions were also filled for general accounting and grant management responsibilities.

Omnitrans has established a comprehensive set of policies and procedures through 2004, but none are related to training and cross-training staff. However, our review found that most of the Finance staff have been provided hands-on training either in their assigned functions or to serve as back up for other

positions. None of the staff we interviewed reported taking additional accounting-related training in their area of responsibility within the Finance Department.

Recommendation #4 – Omnitrans should file the Federal Transit Administration (FTA) and other required financial or operation reports, such as the National Transit Database (NTD) report and the State Controller's Office (SCO) report, on a timely basis to be in compliance with the provision of laws, regulations, contracts, and grants

Description of Effort
Omnitrans has filed the National Transit Database reports and the State Controller Report's in a timely manner for FY 02-03

Recommendation #5 – The Finance Department needs to adopt policies and procedures regarding posting audit adjustments and other financial transactions timely to Omnitrans general ledger system.

Description of Effort
The Finance Department has adopted policies and procedures regarding the posting of audit adjustments and other financial transaction timely to the Omnitrans general ledger system. This policies and procedures are included in accounting policies for journal entries. No subsequent recommendations were made on this issue to pursue further review.

Recommendation #6 – Omnitrans should formally document all significant accounting procedures and policies to ensure the continuity of these operations in the event of turnover and other circumstances. By establishing consistently applied policies and procedures, Omnitrans may reduce the risk of material discrepancies in the Agency's financial position, manual intervention of transaction, duplication of efforts and increase the strength of the internal control environment.

Description of Effort
In comparison to other transit agencies, Omnitrans has developed a noteworthy set of accounting policies and procedures. The Policies and Procedures include required activities for about 45 different accounting functions that are clear, concise and likely user friendly to new accounting staff. Nevertheless, some policies and procedures were missing on capital asset management, and fixed assets accounting.

Recommendation #7 – Finance should train its staff with respect to the tasks and activities of other functions within the department in order to maintain continuity of operations.

Description of Effort

The Finance Department has provided hands-on cross-training to staff in the areas of grant management, fixed assets, payroll, and general accounting duties.

The Accounting Manager has explained that it is difficult to ensure that staff are properly trained because of the vacant and change-over in positions. Recent staff hired have had to learn the MIMS system independently until other formal training could be provided. Staff have also requested that additional grant training is needed in the area of grant laws and regulations. Staff working on grant activities reported that they needed more knowledge on grant requirements to ensure they were properly tracking and reporting on grant activities.

Recommendation #8 – Omnitrans should review the monthly statements and reconciliations to verify that the payments made were for appropriate claims or services. Omnitrans should also work with the Third Party Administrator (TPA) to ensure that differences between the amounts requested for replenishment are consistent with outstanding items on the reconciliations. Further, for the worker's compensation TPA accounts, similar information should be obtained.

Description of Effort

On a monthly basis, an Omnitrans Financial Analyst conducts monthly reconciliation of the Third Party Administrator account. Disbursements are checked against bank statements and outstanding claims are reviewed to monitor amounts requested by the TPA for fund replenishment. Problems that occur in reconciliation stem from checks, which remain uncashed for more than six months. We determined that no current policy exists to address how to address uncashed checks.

Recommendation #9 – Omnitrans should establish a filing system to ensure that all required documentation for the annual allocation instructions, amendments and correspondence are properly maintained in order to ensure compliance with TDA statutes.

Description of Effort

By 2005, the Omnitrans Accounting Manager had established a TDA binder to maintain all required TDA documentation. We reviewed the binder and found the documentation was properly maintained and TDA claims were completed. As part of an upcoming triennial performance audit, external auditors will examine the documents for completeness and timeliness.

Recommendation #11 – Omnitrans should develop and document procedures that will enable the Information System function to respond appropriately to requests and yet provide for an audit trail of actions to take to resolve the problem. Documentation of user request and information services resolution activities, particularly in emergency situation, is critical to ensuring the integrity of the production environment.

Description of Effort

Our review indicates that Omnitrans has developed and implemented an ERP (Enterprise Resource Planning) System Change Control Document that specifies how requests are to be made and changes are to be implemented. Included in this document is a sign-off and validation form to be used to ensure that any and all alterations function correctly and satisfactorily throughout the system.

Recommendation #12 – An Omnitrans supervisor or manager within the Finance Department review and approve the monthly bank reconciliations.

Description of Effort

In 2005, Omnitrans hired a financial analyst whose responsibilities include bank reconciliations. The analyst checks the Agency's deposit records against the bank statement. A review of the Agency disbursements and cancelled checks are compared with the bank statement information. No material issues have been identified in the bank reconciliations that we reviewed. However, checks issued by the third party administrators and over one year old remain outstanding.

Recommendation #13 – Omnitrans should consider making changes to the payroll module that would prevent payroll technicians from making changes to employee pay rates. If this is not feasible, Omnitrans should implement a process whereby a "change report" is reviewed by supervisor to determine that changes made by the payroll technicians are authorized.

Description of Effort

While payroll staff continue to have access rights to change employee pay rates, system reports are generated weekly to identify the person(s) who have accessed the payroll module. Omnitrans had also set up process wherein the Human Resources Department will enter the effective date of payroll changes in the system, and the payroll staff will establish the award rates.

Recommendation #15 – Omnitrans should develop internal procedures to adequately monitor the general ledger and subsidiary systems and lack of consistent accounting procedures.

Description of Effort

To address this recommendation, Omnitrans implemented the following activities:

➢ Contracted with American Appraisal in FY 03-04 to conduct a fixed assets audit.

➢ Centralized cost centers to capture capital expenditures for claim reimbursement.

➢ Finance staff review monthly liability reports which staff ensure tie into the general ledger.

➢ Working with the Purchasing staff to resolve old outstanding balances.

➢ Control accounts used to clean up journal entries are no longer accessed by Finance Staff

Recommendation #16 –- Omnitrans should work with its financial software vendor to identify existing functionalities to address the need for offline manual tracking of transactions and better utilized the systems batch processes. Also, Finance personnel should be properly trained on the use of the MIMS system given the level of turnover experienced. In addition, we recommend that the Agency's internal Accounting procedures be reviewed to identify business practices changes to coincide with the information system capability.

Description of Effort

Procedures were implemented to address the input of capital acquisitions into the ERP system and Omnitrans has addressed the utilization of the ERP system's batch processes. Currently, 13 batch processes are being utilized.

Omnitrans had provided formal vendor-sponsored training on the MIMS system, but the training is now provided in-house by IT management because of the continuous turnover in the Finance Department.

Finally, we noted no significant changes in business practices to coincide with the information system capability. However, accounts payable processes were enhanced to include better tracking and identification of disbursements.

Recommendation #19 – Omnitrans should develop and formalize procedures to ensure proper cut off is achieved as part of the agency's year-end closing procedures

Description of Effort
Financial transactions retroactively applied to prior monthly reporting periods. Upon closing, journal entries could no longer be posted to the general ledger for that reporting period.

Recommendation #20 – Omnitrans should implement procedures to ensure integrity and accuracy of financial information, as the general ledger is the Omnitrans official record of financial activity. These procedures should include the monthly cutoff of transactions that can be retroactively applied to prior monthly reporting periods and ensuring a consistent accounting close at year-end.

Description of Effort
Same as recommendation 19.

Recommendation #21 – Omnitrans should work with its financial software vendor to either develop or obtain training for the utilization of aging reports for its receivable and liability account balances. The use of these reports assists management in identifying the deterioration of the collectability of receivables and assists in identifying stale dated payables. Further, using this type of information is prudent in the analyzing of financial data and identification of errors.

Description of Effort
As part of the monthly financial accounting closing process, staff print accounts payable reports that are compared to account receivable reports. The Finance Department no longer closes the monthly accounting unless a match occurs between the accounts payable and account receivable ledgers.

Recommendation #29 – Omnitrans should implement procedures to better identify, process, and record activity related to compensation absences. By using standardized reports from the financial system, Omnitrans may reduce the risk of significant misstatement and ensure accurate financial reporting.

Description of Effort
In 2005, Omnitrans established policies and procedures for addressing compensated absences to identify, process, and record compensation activity. Specific procedures include steps for calculating the dollar amount of compensated absences as of the end of the fiscal year, June 30, in a timely manner; calculating the dollar amount of time earned and time taken; and preparing compensation absences reports. While the procedures required the

use of MIMS standard reports for leave liability, leave balances, and leave history, the payroll staff reported that compensation absences are actually manually prepared because of difficulty in using the MIMS system.

Recommendation #30 – Omnitrans should implement procedures to periodically reconcile information generated from the payroll module to the general ledger for accuracy.

Description of Effort
Starting in 2004, Omnitrans has implemented procedures to reconcile Book Balance, Bank Balance, cleared checks and outstanding checks. Our review found that Omnitrans was completing the reconciliation of the quarter ended September 30, 2005.

Recommendation #31 – Omnitrans should determine if it is necessary to prepare minutes of the Finance and Audit Committee meetings.

Description of Effort
Omnitrans began to prepare minutes of the Administrative and Finance Committee meetings on May 16, 2005.

Recommendation #32 — Omnitrans should implement procedures to incorporate contract references on purchase orders in order to easily cross-reference and administer contracts.

Description of Effort
Omnitrans began to make greater efforts in 04-05 in incorporating contract references on purchase orders. We reviewed selected purchase orders and noted the required contract reference numbers.

Recommendation #33 – Omnitrans should implement procedures to ensure that all applicable contract file requirements are maintained in accordance with internal policy.

Description of Effort
We reviewed Agency contracts prepared from FY 01-02 to FY 03-04 and found notable improvement. Contract files prepared and maintained in FY 03-04 contained appropriate file requirements ranging from Requests for Proposals to contract negotiation documents and other miscellaneous correspondence generated during the contract procurement process.

Recommendation #35 – Omnitrans should establish a filing system to ensure that all required documentation for the annual allocation instructions, amendments and correspondence are properly maintained in order to ensure compliance with TDA statutes.

Description of Effort

By 2005, Omnitrans Accounting Manager had established a TDA binder to maintain all required TDA documentations. We reviewed the binder and found the documentation was properly maintained and TDA claims were completed. As part of an upcoming triennial performance audit, external auditors will examine the documents for completeness and timeliness.

Recommendation #36 – Omnitrans should ensure that all Form 700s are filed timely as required by the Fair Political Practices Commission. (Form 700s required public officials to disclose all financial interests.

Description of Effort

We reviewed all Form 700s. By FY 04-05, the forms were filed on a timely basis. We noted that Omnitrans staff notify employees and Board members when the Forms need to be returned to the Agency, but staff reported that they must routinely remind staff about pending deadlines. To help in this effort, administrative staff had developed forms and spreadsheets to track the delivery and receipt of Form 700s from Omnitrans Board members and Omnitrans management. In our review of the Form 700s, we noted the frequent acceptance of gifts and other items among the Maintenance and Operations Departments, which are discussed in this report.

Recommendations that Were Partially Implemented

Recommendation #10 – Omnitrans should develop a formal, documented disaster recovery plan, which should include the following items:

- Objectives of the plan;
- The individual to be responsible for the overall implementation of the disaster plan; and
- The assignment of responsibilities to appropriate information system personnel and the specific procedures to be performed by these individual and their subordinates.

Test the plan to determine whether it will be workable in an emergency situation and whether Omnitrans has considered all significant points relative to disaster planning.

Description of Effort

Our review of the Agency's disaster recovery plan indicates it is general in nature and specific to the MIMS/Ellipse system. The document does not specify individual responsibilities for implementation, nor assign those responsibilities to appropriate information systems personnel. Plans and frequency for testing are defined, but to-date, no testing has been performed. Omnitrans should formalize the MIMS/Ellipse disaster preparedness plan and address the items in the CAFR recommendation. Testing should be scheduled and performed at a designated recovery sight. Findings from the periodic testing should be incorporated into updates to the Plan.

Recommendation #17 – Omnitrans should conduct a capital asset inventory to properly identify the existence of assets owned. In addition, we recommend that Omnitrans work with its financial system vendor to identify the most efficient use of its capital asset module to ensure proper tracking.

Description of Effort

Omnitrans, in 2004, hired an outside agency to conduct an asset inventory. For the most part, tracking of capital assets is a manual process although Omnitrans has a work order submitted to its system vendor to correct fixed assets reporting problems, such as inaccurate carry-overs of account balances.

Recommendation #18 – Omnitrans should develop and implement procedures to properly manage its grant receivables and related activities. These procedures, should include, at a minimum the following:

- Project coding at the purchase order level to easily isolate expenditures tied to specific grants

- Invoicing or billing to the grantor agencies on a monthly basis
- The utilization of a project costing module, or the like to capture grant costs in an electronic manner that can be easily identifiable to specific funding streams (Grants)
- Monthly reconciliation of the expenditures incurred, amounts invoiced and cash received by the grant to the general ledger.
- Monthly review of the grants activity by an accounting supervisor or manager.
- Establishment of individual grant binders with related schedules and support to clearly identify the audit trail.

Description of Effort
Omnitrans had implemented the following activities:
- Accepted the system vendor's solution for setting up grant folders, but it does not allow for tracking of individual grant projects to allow for easier tracking of expenditures.
- Invoicing grant agencies on a monthly basis.
- Established separate cost centers which can be downloaded using Crystal Reports into an Excel database. This was developed rather than utilizing a project costing module.
- Monthly reconciliations of the expenditures incurred are performed but Omnitrans has a backlog of grant expenditures to reconcile to ensure proper coding has occurred, and the expenditures were appropriately applied against grants.
- Review monthly billing summary of all expenditures recorded in the 9000 series of accounts, which are grant-related.
- Established individual grant binders.

Recommendation #22 – Omnitrans should conduct a physical inventory in order to identify the population of Omnitrans capital assets. This information should be reconciled to Omnitrans subsidiary ledger. Further, we recommend that Omnitrans develop procedures to track capital assets acquired with federal funds to include the following:
- Capturing fixed assets acquired identifying the specific allocations of local, state, and federal funding sources.
- Reconciling the capital asset activity between the subsidiary and general ledger.
- Reconciling the results of the periodic physical inventory to the Finance Departments capital asset subsidiary ledger on a timely basis.

Description of Effort
- Omnitrans is capturing fixed assets by assigning cost centers with a series of numbers that begin with 9000.

- Omnitrans is not electronically reconciling the capital asset activity between the subsidiary and general ledger because the system does not accurately carry over fixed asset balances.
- Omnitrans reconciles the physical inventory to the capital asset subsidiary on alternate years. The Agency previously performed monthly reconciliations.

Recommendation #23 – Omnitrans should implement procedures to ensure that federal program reporting requirements are followed. We recommend that the reporting functions reside in a centralized manner within Finance. The reporting procedures should be initiated by the department administering the grant with a review of the information by Finance for accuracy and consistency with the general ledger. Such procedures and structure should ensure that Federal status reports are filed on a timely basis and that the information supported by Omnitrans financial records.

Description of Effort
See description of efforts for Recommendations 24 through 26

Recommendation #24 – Omnitrans should implement procedures to monitor sub recipients on an annual basis to ensure compliance with Federal Transit Administration requirements including Buy America provisions, Davis Bacon and allowable costs. Based on the level and nature of the activity performed by the sub recipients, Omnitrans should consider requesting copies of invoices and/or performing a project closeout examination.

Description of Effort
Omnitrans is monitoring sub recipients annually. The Planning department is also involved in this action. Sub recipients are required to submit their single audit for the year they filed a grant. There are currently only a few, but Omnitrans maintains separate folders for each sub recipient, containing the single audits. Close-out audit have not been fully performed.

Recommendation #25 – In concert with its implementation of the financial statements findings 2003-01 through 2003-07, Omnitrans should implement year-end closing procedures to ensure that the audited financial statements are submitted in accordance with the TDA section noted above.

Description of Effort
Omnitrans developed a milestone schedule to meet required deadlines, but it took two years to develop this schedule. Currently, in FY 04-05, Omnitrans appears to be on schedule for TDA reporting.

Recommendation #26 – Omnitrans should implement procedures to properly identify and separate TDA funds between operating and capital activities. Further, as part of the audit process, all advanced grant amounts should be supported by records of the allocation to specific projects. By implementing such procedures, Omnitrans may develop a better audit trail to support its compliance with expenditures provisions of the TDA.

Description of Effort

We determined that separate deferred account numbers are not being used to identify and separate TDA funds from operating versus capital funds. Instead, staff separate the funds related to operating if they receive an advancement of funds. Capital funds will flow through accounts receivable funds. All activity is maintained in a spreadsheet outside of the Agency's core financial system.

Recommendation #27 – Omnitrans should contact its software vendor to identify and rectify control weaknesses in system setting and research the erroneous entries made in order to correct them. In addition, adequate training for MIMS system should be provided to finance and accounting staff to reduce human errors in the future.

Description of Effort

The original recommendation referred to the subsidiary ledger and general ledger for accounts payable, accounts receivable, and fixed assets which did not reconcile to each other. In FY 2003, the capital assets record for acquisitions and deletions reconciled to the general ledger. Accumulated adjustments in the subsidiary payable control ledger occurred when control accounts were used manually rather than a subsidiary ledger function. In FY 2003, access to usage of control accounts for journal entry has been terminated. Omnitrans is continuing to address corrective actions for accounts receivable and capital assets.

Recommendation #34 – Omnitrans should implement a periodic reporting mechanism to provide accountability and progress with respect to its capital budget.

Description of Effort

Omnitrans has prepared grant activity reports that show the project budget allocation and total expenditures. The Agency is working on developing reports to capture expenditures on a project-by-project basis rather than by total grant allocation.

91

Recommendations that Were Not Implemented

Recommendation #14 – Omnitrans should implement procedures to ensure matching requirements are properly met.

Description of Effort
At the time of our review, Omnitrans Finance Department has not been involved in reviewing grant applications to ensure the availability of operating revenue to meet grant matching requirements.

Recommendation #28 – Omnitrans should implement procedures to restrict directors and other key personnel from having access to Omnitrans assets and other sensitive information upon termination or resignation. These procedures should be incorporated as part of the employee's/director's exit interview. By implementing such measures, Omnitrans strengthens the control environment and safeguards its assets.

Description of Effort
None noted to date.

Appendix 2: Purchase Orders That Should Be Examined for Closing

PO Number	Supplier Number-Name	Order Date	Approved Total	Paid Amount	Balance	PO Status
P08957	001626-TRAPEZE SOFTWARE GROUP INC.	7/12/2002	54,653.75	53,823.75	830.00	OPEN
P09193	001341-MOHAWK MFG. & SUPPLY COMPANY	8/6/2002	1,114.90	1,114.90	0.00	OPEN
P09222	001586-NEW FLYER OF AMERICA	8/9/2002	149.64	149.42	0.22	OPEN
P09390	001388-MCI SERVICE PARTS, INC.	8/27/2002	426.23	0.00	426.23	OPEN
P09420	001399-TRUCK-TRAILER-TRANSIT	8/30/2002	262.40	262.40	0.00	OPEN
P09585	000983-HYDRAULIC ELECTRIC CO.	9/21/2002	3,879.00	2,768.32	1,110.68	OPEN
P09729	002080-EXECUTRAIN	10/8/2002	2,168.80	2,165.80	3.00	OPEN
P09850	001586-NEW FLYER OF AMERICA	10/23/2002	1,141.07	1,113.37	27.70	OPEN
P10026	001586-NEW FLYER OF AMERICA	11/15/2002	4,407.73	4,405.93	1.80	OPEN
P10061	001891-DUN & BRADSTREET	11/19/2002	2,293.62	1,787.31	506.31	OPEN
P10184	001399-TRUCK-TRAILER-TRANSIT	12/5/2002	928.52	928.52	0.00	OPEN
P10219	000983-HYDRAULIC ELECTRIC CO.	12/11/2002	306.04	246.54	59.50	OPEN
P10240	001773-CURVED GLASS DISTRIBUTORS	12/11/2002	1,259.47	1,259.45	0.02	OPEN
P10307	001586-NEW FLYER OF AMERICA	12/18/2002	3,835.94	3,835.90	0.04	OPEN
P10345	001508-ORACLE CORPORATION	12/20/2002	6,003.84	5,975.03	28.81	OPEN
P10482	002351-BUSTEX	1/14/2003	1,308.80	1,308.80	0.00	OPEN
P10609	001341-MOHAWK MFG. & SUPPLY COMPANY	1/23/2003	389.29	209.84	179.45	OPEN
P10618	002359-TWRITE.INC	1/23/2003	61,325.00	56,504.01	4,820.99	OPEN
P10794	000701-L. D. KING, INC.	2/20/2003	110,000.00	17,615.50	92,384.50	OPEN
P10945	001586-NEW FLYER OF AMERICA	3/8/2003	8,291.26	8,253.64	37.62	OPEN
P10958	002072-ENTERPRISE FLEET SALES	3/11/2003	144,940.40	121,843.52	23,096.88	OPEN

P11041	000018-JOHNSON MACHINERY	3/18/2003	7,009.48	6,975.64	33.84	OPEN
P11499	001586-NEW FLYER OF AMERICA	5/7/2003	8,345.00	8,344.35	0.65	OPEN
P11556	002445-BUSINESS PERFORMANCE GROUP	5/13/2003	4,000.00	3,813.00	187.00	OPEN
P11563	002437-JL MALLARD INC.	5/13/2003	668.06	334.03	334.03	OPEN
P11625	001289-DANIELS TIRE, INC.	5/20/2003	8.77	0.00	8.77	OPEN
P11703	001394-GRAINGER, INC.	5/28/2003	641.57	0.00	641.57	OPEN
P11721	002044-COMSHARE (U.S.) , INC.	5/28/2003	7,534.04	3,767.02	3,767.02	OPEN
P11753	001341-MOHAWK MFG. & SUPPLY COMPANY	5/31/2003	1,283.49	1,283.48	0.01	OPEN
P11760	001773-CURVED GLASS DISTRIBUTORS	6/2/2003	1,712.73	1,712.70	0.03	OPEN
P11770	000255-S & A SYSTEMS	6/4/2003	328.04	328.00	0.04	OPEN
P11806	002422-SITESAFE	6/5/2003	100.00	0.00	100.00	OPEN
P12038	001368-SIERRA BAKERY & PARTY SHOP	6/25/2003	1,000.00	982.50	17.50	OPEN
P12039	002207-RAINBOW IMAGING	6/25/2003	400.00	263.64	136.36	OPEN
P12041	001273-CITY OF S.B. FINANCE DEPT.-PRINT	6/25/2003	4,500.00	3,539.26	960.74	OPEN
P12042	000845-LOMA LINDA UNIVERSITY	6/25/2003	500.00	438.23	61.77	OPEN
P12066	002478-TIMELESS PLAQUES	6/26/2003	1,000.00	968.69	31.31	OPEN
P12119	000590-ART @ 5TH ALLEY	6/30/2003	105,000.00	104,898.77	101.23	OPEN
	TOTAL		**553,116.88**	**423,221.26**	**129,895.62**	

Appendix 3: Possible Duplicate Purchase Orders

PO Number	Supplier Number-Name	Order Date	Approved Total	Paid Amount	Balance	PO Status
P18255	000003-S.B. & RIVERSIDE COUNTIES FIRE	01/18/2005	323.95	323.95	0	CLOSED
P18321	000003-S.B. & RIVERSIDE COUNTIES FIRE	01/22/2005	323.95	323.95	0	CLOSED
P12969	000093-SOUTH COAST AIR QUALITY	09/22/2003	295.37	295.37	0	CLOSED
P12970	000093-SOUTH COAST AIR QUALITY	09/22/2003	295.37	295.37	0	CLOSED
P18248	000105-LU'S LIGHTHOUSE, INC	01/18/2005	24.9	26.83	0	CLOSED
P18298	000105-LU'S LIGHTHOUSE, INC	01/21/2005	24.9	26.83	0	CLOSED
P16283	000105-LU'S LIGHTHOUSE, INC	08/10/2004	74.4	80.17	0	CLOSED
P16307	000105-LU'S LIGHTHOUSE, INC	08/11/2004	74.4	80.17	0	CLOSED
P17415	000173-ID INDUSTRIES	11/09/2004	242.785	261.61	0	CLOSED
P17434	000173-ID INDUSTRIES	11/10/2004	242.785	261.61	0	CLOSED
P17351	000282-OFFICE DEPOT	11/04/2004	252.48	272.05	0	CLOSED

P17385	000282-OFFICE DEPOT	11/05/2004	252.48	272.05	0	CLOSED
P16212	000552-N/S CORPORATION	08/05/2004	230.36	248.21	0	CLOSED
P16344	000552-N/S CORPORATION	08/12/2004	230.36	248.21	0	CLOSED
P14436	000712-RAINBOW BOLT & SUPPLY, INC.	02/18/2004	1000	1000	0	CLOSED
P14484	000712-RAINBOW BOLT & SUPPLY, INC.	02/20/2004	1000	1000	0	CLOSED
P14950	000760-WAYNE ELECTRIC COMPANY	04/02/2004	225	242.44	0	CLOSED
P14983	000760-WAYNE ELECTRIC COMPANY	04/07/2004	225	242.44	0	CLOSED
P14698	000760-WAYNE ELECTRIC COMPANY	03/14/2004	225	242.44	0	CLOSED
P14738	000760-WAYNE ELECTRIC COMPANY	03/17/2004	225	242.44	0	CLOSED
P12620	000760-WAYNE ELECTRIC COMPANY	08/21/2003	385	414.84	0	CLOSED
P12639	000760-WAYNE ELECTRIC COMPANY	08/22/2003	385	414.84	0	CLOSED
P13242	000760-WAYNE ELECTRIC COMPANY	10/17/2003	385	414.84	0	CLOSED
P13262	000760-WAYNE ELECTRIC	10/17/2003	385	414.84	0	CLOSED

	COMPANY					
P17215	000760-WAYNE ELECTRIC COMPANY	10/22/2004	385	414.84	0	CLOSED
P17308	000760-WAYNE ELECTRIC COMPANY	10/29/2004	385	414.84	0	CLOSED
P19452	000760-WAYNE ELECTRIC COMPANY	04/22/2005	625	673.44	0	CLOSED
P19520	000760-WAYNE ELECTRIC COMPANY	04/27/2005	625	673.44	0	CLOSED
P15788	000760-WAYNE ELECTRIC COMPANY	06/23/2004	625	673.44	0	CLOSED
P15858	000760-WAYNE ELECTRIC COMPANY	06/30/2004	625	673.44	0	CLOSED
P17669	000760-WAYNE ELECTRIC COMPANY	12/03/2004	625	673.44	0	CLOSED
P17693	000760-WAYNE ELECTRIC COMPANY	12/08/2004	625	673.44	0	CLOSED
P19744	000760-WAYNE ELECTRIC COMPANY	05/20/2005	685	738.09	0	CLOSED
P19855	000760-WAYNE ELECTRIC COMPANY	05/27/2005	685	738.09	0	CLOSED
P09266	000760-WAYNE ELECTRIC COMPANY	08/14/2002	1345	1449.24	0	CLOSED
P09341	000760-WAYNE ELECTRIC	08/21/2002	1345	1449.24	0	CLOSED

	COMPANY					
P15315	000799-CUMMINS CAL PACIFIC	05/08/2004	123.12	132.66	0	CLOSED
P15339	000799-CUMMINS CAL PACIFIC	05/12/2004	123.12	132.66	0	CLOSED
P13269	000799-CUMMINS CAL PACIFIC	10/17/2003	390	420.23	0	CLOSED
P13331	000799-CUMMINS CAL PACIFIC	10/24/2003	390	420.23	0	CLOSED
P18687	000799-CUMMINS CAL PACIFIC	02/22/2005	3025	3259.44	0	CLOSED
P18734	000799-CUMMINS CAL PACIFIC	02/25/2005	3025	3259.44	0	CLOSED
P13253	000911-EDNA E. J. FRANCIS	10/17/2003	1736.6	1736.6	0	CLOSED
P13325	000911-EDNA E. J. FRANCIS	10/23/2003	1736.6	1736.6	0	CLOSED
P08936	001071-SOUTH COAST A.Q.M.D.	07/09/2002	121	121	0	CLOSED
P08967	001071-SOUTH COAST A.Q.M.D.	07/12/2002	121	121	0	CLOSED
P20158	001071-SOUTH COAST A.Q.M.D.	06/23/2005	144.24	144.24	0	CLOSED
P20238	001071-SOUTH COAST	06/30/2005	144.24	144.24	0	CLOSED

	A.Q.M.D.					
P15825	001168-HARBOR DIESEL & EQUIP, INC.	06/24/2004	55.7	60.02	0	CLOSED
P15831	001168-HARBOR DIESEL & EQUIP, INC.	06/25/2004	55.7	60.02	0	CLOSED
P12749	001201-MINCOM	09/05/2003	695	695	0	CLOSED
P12804	001201-MINCOM	09/09/2003	695	695	0	CLOSED
P12815	001201-MINCOM	09/10/2003	695	695	0	CLOSED
P17725	001286-L WEBBER INLAND EMPIRE TOOLS	12/13/2004	19.95	21.5	0	CLOSED
P17785	001286-L WEBBER INLAND EMPIRE TOOLS	12/18/2004	19.95	21.5	0	CLOSED
P11640	001289-DANIELS TIRE, INC.	05/21/2003	148.12	159.6	0	CLOSED
P11711	001289-DANIELS TIRE, INC.	05/28/2003	148.12	159.6	0	CLOSED
P17007	001301-FAIRVIEW FORD SALES	10/14/2004	205.62	221.56	0	CLOSED
P17104	001301-FAIRVIEW FORD SALES	10/19/2004	205.62	221.56	0	CLOSED
P09679	001371-SMITTYS AUTO PAINTS	10/03/2002	168.66	181.73	0	CLOSED
P09695	001371-SMITTYS AUTO	10/04/2002	168.66	181.73	0	CLOSED

	PAINTS					
P13693	001385-VENTURI STAFFING	12/03/2003	15000	15000	0	CLOSED
P13698	001385-VENTURI STAFFING	12/04/2003	15000	15000	0	CLOSED
P09121	001392-VALLEY POWER SYSTEMS	07/31/2002	33.64	36.25	0	CLOSED
P09154	001392-VALLEY POWER SYSTEMS	08/01/2002	33.64	36.25	0	CLOSED
P17497	001392-VALLEY POWER SYSTEMS	11/17/2004	752.25	810.55	0	CLOSED
P17528	001392-VALLEY POWER SYSTEMS	11/20/2004	752.25	810.55	0	CLOSED
P14613	001422-ROCKHURST UNV CONT EDUC CTR	03/05/2004	126.75	126.75	0	CLOSED
P14645	001422-ROCKHURST UNV CONT EDUC CTR	03/09/2004	126.75	126.75	0	CLOSED
P17476	001506-CARRIER TRANSICOLD OF S.C.	11/16/2004	206.44	0	206.44	OPEN
P17551	001506-CARRIER TRANSICOLD OF S.C.	11/23/2004	206.44	0	206.44	OPEN
P11077	001520-ACCOUNTEMPS	03/25/2003	2500	2500	0	CLOSED
P11082	001520-ACCOUNTEMPS	03/25/2003	2500	2500	0	CLOSED

P14262	001575-ADF EQUIPMENT	01/31/2004	165	165	0	CLOSED
P14323	001575-ADF EQUIPMENT	02/07/2004	165	165	0	CLOSED
P10418	001584-PREVOST PARTS COACH TRANSIT	01/07/2003	29.26	31.54	0	CLOSED
P10441	001584-PREVOST PARTS COACH TRANSIT	01/09/2003	29.26	31.54	0	CLOSED
P18461	001584-PREVOST PARTS COACH TRANSIT	02/04/2005	213.08	229.6	0	CLOSED
P18526	001584-PREVOST PARTS COACH TRANSIT	02/09/2005	213.08	229.6	0	CLOSED
P16334	001586-NEW FLYER OF AMERICA	08/12/2004	83.88	83.88	0	CLOSED
P16382	001586-NEW FLYER OF AMERICA	08/14/2004	83.88	83.88	0	CLOSED
P10567	001604-CASTLE PUBLICATIONS LTD	01/21/2003	40	43.3	0	CLOSED
P10568	001604-CASTLE PUBLICATIONS LTD	01/21/2003	40	43.3	0	CLOSED
P10657	001626-TRAPEZE SOFTWARE GROUP INC.	01/30/2003	600	600	0	CLOSED
P10686	001626-TRAPEZE SOFTWARE GROUP INC.	02/01/2003	600	600	0	CLOSED

P12702	001670-THE DJ COMPANY	08/29/2003	650	650	0	CLOSED
P12703	001670-THE DJ COMPANY	08/29/2003	650	650	0	CLOSED
P09425	001670-THE DJ COMPANY	08/30/2002	650	650	0	CLOSED
P09426	001670-THE DJ COMPANY	08/30/2002	650	650	0	CLOSED
P16683	001670-THE DJ COMPANY	09/16/2004	650	650	0	CLOSED
P16684	001670-THE DJ COMPANY	09/16/2004	650	650	0	CLOSED
P18680	002021-LIFT-U	02/23/2005	628.8	628.8	0	CLOSED
P18681	002021-LIFT-U	02/23/2005	628.8	628.8	0	CLOSED
P10659	002112-WYNDHAM BUTTES RESORT	01/30/2003	650	650	0	CLOSED
P10687	002112-WYNDHAM BUTTES RESORT	02/01/2003	650	650	0	CLOSED
P12750	002134-INVERNESS HOTEL	09/05/2003	597.4	597.4	0	CLOSED
P12772	002134-INVERNESS HOTEL	09/09/2003	597.4	597.4	0	CLOSED
P15859	002329-UNITED TUBE BENDING	06/30/2004	600	600	0	CLOSED
P15868	002329-UNITED TUBE BENDING	07/01/2004	600	600	0	CLOSED
P17311	002458-DELAFIELD FLUID	10/29/2004	190.8	205.59	0	CLOSED

	TECH					
P17328	002458-DELAFIELD FLUID TECH	11/01/2004	190.8	205.59	0	CLOSED
P12729	002506-FRS ENVIRONMENTAL	08/30/2003	543	585.09	0	CLOSED
P12759	002506-FRS ENVIRONMENTAL	09/05/2003	543	585.09	0	CLOSED
P13053	002558-2003 CTA CONFERENCE	09/30/2003	450	450	0	CLOSED
P13121	002558-2003 CTA CONFERENCE	10/03/2003	450	450	0	CLOSED
P19024	002892-AMERICAN TRAINCO	03/17/2005	1580	1580	0	CLOSED
P19025	002892-AMERICAN TRAINCO	03/18/2005	1580	1580	0	CLOSED
P19547	002909-JOBS MAGAZINE / LA TIMES	04/29/2005	1112	1112	0	CLOSED
P19571	002909-JOBS MAGAZINE / LA TIMES	05/03/2005	1112	1112	0	CLOSED